The Third American Revolution

AN INTERPRETATION

By
BENSON Y. LANDIS

"A comprehension of the forces at work in American life, fallible as it is bound to be, is our best hope, is the beginning of wisdom, and provides the only available guidance for those who would shape the world to their heart's desire."
—Charles A. Beard.

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INTRODUCTION

The first American Revolution—1775 to 1783—was a struggle between an association of agricultural colonies and the metropolis of London. The second American Revolution—1861 to 1865—was a conflict for control of the national government between planters of the South on the one hand and an alliance of Eastern industrialists with Middle-western farmers on the other. The third American Revolution—that of 1933—began largely as a clash of a combination of the South and the West against the industrial and financial East. This book attempts an interpretation of certain aspects of the third Revolution.

The forces which brought it about began to gather power far from Boston and New York soon after the national election of 1928. In that year the agricultural wings of both major parties had been given back seats in the conventions and in the campaign. Soon after the election political observers at Washington noted that important representatives from the agrarian South and West had come to a high degree of collaboration. The new coalition then concentrated upon Governor Franklin D. Roosevelt as their candidate. They had such success that in the election of 1932 President Hoover was able to carry only a few Northeastern states. The tide from the South and the West had run high and strong.

On March 4, 1933, the Revolution was introduced to the public in the form of exciting drama. The stage could perhaps not have been better set. After three and a half long years of depression, everybody was finally and certainly in the same boat. Nearly all the banks were closed. In most cities no bank could take

for deposit a check signed Rockefeller or Morgan. Walter Lippmann observed that the American people had at last had a lucky break, because all were having the same experience. The Revolution gained much support during the banking crisis. Quick as lightning, it would appear, many millions of rugged individualists were willing to give up some of their economic liberty for a collective attempt at achieving recovery and greater security.

Then followed in quick succession a series of events which were hailed as revolutionary, although the manufacturers of colored shirts received no business. These events seem to have demonstrated, however, that the Revolution which began as a rising tide of green was not wholly populist, not even mainly another chapter in the ancient antipathy between city and country. Judge Samuel Seabury said it was a rising of the middle classes, bringing a new federalism. In *The New York Evening Post* a Washington reporter wrote that the Administration seemed to want to do mainly two things: raise farm prices and "please" urban labor. Norman Thomas, asked if the new order was socialism, gave an emphatic "No." He saw the Revolution as "state capitalism," which was capable of becoming either socialism or fascism, depending on the kind of control to be developed. Our first plunge into industrial planning was being advised by noted industrialists. A Catholic scholar proclaimed that the social teachings of the Popes were being carried out, that we were keeping in the *via media* between capitalism and communism. A joint statement was issued by the Central Conference of American Rabbis, the National Catholic Welfare Conference, and the Federal Council of the Churches of Christ in America, saying that a

number of the social ideals and programs of these bodies had been translated into law. Certainly many urban progressives and liberals, East and West, were for the Revolution. Numerous debtors in city and country looked hopefully to Washington for the help they needed in their battles with their creditors. Evidently what was known as the creditor or investing class was most apprehensive, most fearful of the Revolution.

To these interpretations should be added the views of those who thought it was no revolution at all—simply a temporary use of collective methods to achieve recovery—after which we would surely return to rugged individualism. The allocation of unusual grants of power to the Executive, this group thought, was only temporary, subject to the recall of Congress. The special laws were all labeled "emergency" or were limited to trial over a short period. We had frequently been an impulsive people, acting quickly in crises. Furthermore, it was held that public sentiment had undergone no sweeping change, or that when people got over their fright they would not stand for the experimentation of the New Deal.

We may be most sure that the national policy will be a question of major controversy for some time to come. This book was written simply because of the conviction that there should be available a short interpretation of the main happenings following March 4, 1933, in relation to the social forces controlling the events. An attempt is also made to provide a guide for those who wish to discuss certain of the questions and issues treated.

BENSON Y. LANDIS.

CHAPTER I

TOWARD PERSISTENT EXPERIMENTATION

This nation asks for action, and action now.—*Franklin D. Roosevelt.*

The state of the nation was mirrored on the faces of crowds of people from many states milling in the streets and in the hotel lobbies in Washington on Inauguration Day, March 4, 1933. Weariness, anxiety, uncertainty were there, coupled with a yearning, a resistless demand for action much more drastic than anything that had been tried. The elements of the great crisis were finally focused.

The Rising Tide of Green

On election night in 1932, Walter Lippmann had said over the radio that Governor Franklin D. Roosevelt of New York had been elected President because the people wished to assure in no uncertain terms that there would be "unity in the government"—in other words, undoubted coöperation between the President and Congress.

A shrewd political scientist observed that the new Administration would be a "debtors' government." The phrase offers a good clue to the meaning of much that has taken place since March 4, 1933; for the drive for Roosevelt gathered power early in the South and the West, which is to a considerable extent in debt to the financial and creditor classes of the East. Although not wholly agricultural, the South and the West contain the states which in population are more than half

rural. Farmers in debt, suffering from low prices, burdened with high property taxes, had been exhibiting varieties of discontent for a long time. In Congress, their representatives in both major parties had encountered their heaviest opposition from both major parties in the Northeast. If one wants graphic evidence, let him consult the maps which described the geographical location of the senators and representatives voting prior to 1928 for and against the McNary-Haugen surplus control bill, which never became law but was a symbol of farmers' demands. In 1928 the agrarian elements of both the Democratic and Republican parties felt ignored. The Federal Farm Board, established in 1929, which was President Hoover's substitute for McNary-Haugenism, and which was once described by him as "a great instrumentality," proved a fiasco and lost as a result of collapses of commodity prices $350,000,000 out of the $500,000,000 revolving fund which was to stabilize markets. Congress turned over to the Red Cross for distribution to the needy huge amounts of the cotton and wheat which had been bought to hold surpluses for rises in prices. The selection of Governor Roosevelt—who was well informed about matters agricultural—by many Western and Southern Democrats as their pre-convention candidate was a piece of high strategy. It eventually won assistance from Republican Middle-westerners and Westerners, and lined up much middle class urban support in the East.

Tides of Other Colors

The Democratic campaign of 1932 was addressed to the farmers and to the great urban middle classes. Numerous progressives and liberals who would in

any except emergency times have voted for Norman Thomas cast their ballots, in November, 1932, for Roosevelt. They wanted to be sure that there would be a change of administration. A respectable realtor living in an Ohio suburb spoke for many when he said he was working and praying for Roosevelt: he believed it was his sole hope in his difficulties with his creditors. Industrial workers, employed and unemployed, saw their situation becoming more difficult, wages declining, unemployment increasing, relief pyramiding to fantastic heights. Municipal finances became increasingly desperate, delinquencies of taxes mounted, debts became heavier, and some six hundred cities defaulted on bonds. The banking situation remained deplorably weak in spots, including a few very large cities. The Reconstruction Finance Corporation was not strong enough to stand against the overwhelming forces of the Great Deflation. Urban home owners were having their troubles over mortgages, were seeing the equities in their homes decrease or vanish, their incomes grow more slender or disappear. Large numbers of architects, engineers, and other technical and professional men and women were suffering badly for the first time in the history of the United States. Resentment rose high as unemployment increased among them. Urban debtors, industrial workers, professional people—these were the eager and willing allies of revolting farmers. What had begun as an agrarian movement, had quickly become a rural and urban middle class revolution, because a man had arisen to try for the first time in our history a systematic reconciliation, a concert of farm and city interests. Truly a new federalism was being demanded on the American scene. It was perhaps of some significance that the 1933 Pulitzer prize in history

went to Frederick Jackson Turner for his monograph on *The Significance of Sections in American History.*

The Approach to March Fourth

As March 4 approached, the country had farm revolt after farm revolt. It was too easy to dismiss them as the antics of very small minorities—as the work of untrustworthy agitators playing on distress. Conservative Pennsylvania German farmers indulged in large numbers in what were politely called "penny auctions." These were simply forms of social coercion to evade foreclosure or other due processes of the law. In Ohio and Michigan, also places where respect for the law was supposed to be most secure, there were "penny auctions" too numerous to mention. In Lansing, Michigan, a lawyer was overheard to say to an investing client: "There is no use foreclosing. You can't get more than four dollars for a farm, or five cents for a horse." At these auctions, real bidders were segregated by embattled farmers, and only nominal bids were entered. Eminent legal minds might dismiss these events as ridiculous, saying that the courts would in time have the last word; but that made no difference. The voices from the farm had thrown fear into the hearts of many an urban creditor, and had forced the "enlightened" life insurance companies to announce their "voluntary" decisions to forego foreclosure actions in Iowa and many other states until the emergency had passed. In Iowa, demonstrations of farmers prevented sales of lands for unpaid taxes by a number of county treasurers, and brought about postponement after postponement. Milk strikes among farmers became both more widespread and more numerous. To cap the climax, demands for inflation waxed louder.

Some of the most conservative of our farm leaders were demanding "honest dollars" in order that debts might be more easily paid.

Added to these disconcerting scenes, the banking structure reached the breaking point. In the middle of February, the break came from Detroit. The Governor of Michigan, on the advice of the banking commissioner of the state and at the request of officers of the state banking association, had issued a proclamation closing all the banks. Two of the large Detroit banks had failed, the collapse in real estate values, plus war between large motor companies which were depositors, being two of the most plausible explanations. On the very day the banks closed in Michigan, predictions were freely made in that state that all the banks would soon be closed throughout the United States. There was much confusion throughout Michigan. The reasons for the failures of the Detroit banks were not publicly revealed. There were rumors to the effect that the Governor of Michigan himself did not know them, or had actually been misinformed. His early statements to the press were not reassuring throughout the state.

Cash was rushed to Michigan from other states in order to meet payrolls. Citizens of Michigan having bank accounts in other states started drawing on them. Within a short time banks in a number of Ohio cities were permitted to operate only with restricted withdrawals. Soon other states and cities were put on the same basis. Newspaper reports spread alarms from state to state. Hoarding of money took on a new impetus. Corporations wildly transferred bank funds from one city to another, seeking a haven. The week before the inauguration, the stress and strain centered on New York and other metropolitan centers. Panic

spread among depositors. Withdrawals of currency mounted and mounted. It began to be a question as to how long the large city banks could keep it up, even with the help of the Federal Reserve System. By the morning of March 4, the Governor of New York, who had cancelled his trip to Washington, had closed the New York banks. The long lines of depositors lined up at banks ready to continue the runs were quickly dispersed. By the time a new Administration could be sworn in, all banks were closed in thirty-two states, most in six, and in seven others operations were permitted only under restrictions of the banking departments. The banking system, which had always been serenely described as "inadequate" by conservative economists, had completely collapsed. At the height of a financial panic, Franklin D. Roosevelt took the oath of office, and sent out his "definition of the situation," his statement of faith, his conception of the courses of action needed.

The Prophet in the Crisis

When were a man's words more eagerly awaited by a nation? President Roosevelt began by saying he believed he was called upon to speak "with a candor and decision which the present situation of our nation impels. . . . This great nation will endure as it has endured, will revive and will prosper. . . . The only thing we have to fear is fear itself. . . .

"A host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment. Yet our distress comes from no failure of substance. . . . Plenty is at our doorstep, but a generous use of it languishes in the very

sight of the supply. . . . The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit. . . .

"We must act and act quickly. . . . Our greatest primary task is to put people to work." This requires drastic action by the Government itself, "treating the task as we would treat the emergency of a war." Prices of agricultural products must be raised. Taxation on farm property must be reduced.

Banking, credit, and investments must be more strictly supervised. "There must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency." (The new President did not say we must stay on the gold standard.)

The budget of the federal government must be balanced. First things must come first, and domestic policy must take precedence over foreign policy. But we must not be "narrowly nationalistic." "I would dedicate this nation to the policy of the good neighbor."

As to the methods needed, there was the following declaration:

"Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. That is why our constitutional system has proved itself the most superbly enduring political mechanism the modern world has ever seen. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relations.

"And it is to be hoped that the normal balance of executive and legislative authority may be wholly equal, wholly adequate to meet the unprecedented task before us. But it may be that an unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure.

"I am prepared under my constitutional duty to recommend the measures that a stricken nation in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

"But in the event that the Congress shall fail to take one of these two courses, in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.

"For the trust reposed in me I will return the courage and the devotion that befit the time. I can do no less."

"Bold Persistent Experimentation"

Two weeks later *The New York Times* published a feature article which stated that the nation had renewed its faith, that the confidence of the people in the government had been established again. Another feature article said that the President's campaign opponents were paying homage to him, were calling him "the hope of the world." Reporters soon engaged in a contest

of superlatives when describing the new Administration. Others, more hard headed, said it would be a short "honeymoon." It was soon evident, however, that the manner of man elected to the Presidency was becoming known to the country. He who had been thought too vacillating, too agreeable, too vague, demonstrated that he could act with bold strokes; that he had a thorough grasp of enormously detailed and complex problems. Had a crisis once more served to bring out the qualities of a man? His crisp and terse messages appealed to the country. His radio speeches, addressing his hearers as "friends," were declared by an educator to be the best recent examples of the use of the radio in education.

A leader of a rather discordant party, once called an aggregation of incompatibles, had emerged a statesman capable of taking a nation recently opposed to experimentation into an adventure of "bold persistent experimentation." In *Looking Forward,* his book of campaign addresses and recent articles, he declared unmistakably: "The country needs and, unless I mistake its temper, the country demands bold, persistent experimentation." And it was to be a most ambitious adventure, as he also said in *Looking Forward,* to achieve "a true concert of interests." He wished to create a government based upon "universality of interest." The planning he believed in called for a "real community of interest—not only among the sections of this great country, but among the economic units and the various groups in these units; . . . a common participation in the work . . . planned on the basis of a shared common life. . . ." Finally, he said: "I favor economic planning, not for this period alone, but for our needs for a long time to come."

For this adventure he asked for and received the grants of extraordinary powers from Congress which are now common knowledge. For his cabinet he chose two Progressive Republicans, thus making possible coöperation from that source. An exceptionally able but small group of economists and political scientists who had been his close advisors for several years were given important posts in departments. Political opponents, including hysterical conservative newspaper editors, endeavored to draw fire upon them by ridiculing professors, by trying to attach opprobrium to the term "the Brain Trust." It was soon found, however, that "the Brain Trust" was in touch with many able minds, and that it was performing important and exceptional advisory functions. A conservative Republican senator, at first highly skeptical of it, was heard to explain: "How do we know . . . their plans might work!" A people devoted to rugged individualism had been sufficiently jarred from their moorings to permit an intelligent attempt at economic planning.

CHAPTER II

OPENING AND REGULATING BANKS

> The rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure, and abdicated.—*Franklin D. Roosevelt.*

The first step of the President was to proclaim the national banking holiday and thus keep all banks closed for a little while longer. In issuing his proclamation, the President went for authority to an unrepealed war-time statute giving to the Executive control over the export of gold, which was forthwith prohibited. All the commodity and security exchanges remained closed. Congress was called into special session for the purpose of enacting emergency banking legislation. Before legislation could be prepared, banks were permitted, under rulings of the Secretary of the Treasury, to meet the needs of individuals and communities for food and other necessities.

The country was made aware as perhaps never before of its forty-nine banking systems, one for each of the states, and one for the banks having national charters. Out of approximately eighteen thousand banks in the country, roughly a third were national banks; but they had almost two-thirds of the banking resources. The country was also painfully reminded, here and there at least, that in 1920 there had been something more than thirty thousand banks, that since then about twelve thousand had failed (including a small number merged). This had gone on in good times as well as bad. Of these twelve thousand, eighty-five per cent were state and private banks. Our bank-

ing system had been a disgrace when prices and profits were rising, as well as when they were falling.

For several days following March 4, there were rumors and counter rumors. There would be, or would not be, a national guarantee of all bank deposits. The government would, or would not, "nationalize" or take over the banks. There would be, or would not be, a national banking system. Huge quantities of scrip were printed by numerous clearing house associations of banks in various parts of the country. Scrip, which is simply a printed acknowledgment of an obligation of a bank, secured by its assets, had been used for a short time in the panic of 1907. These preparations were all in the expectation that large quantities of currency would be called for or needed when the banks would open. But the scrip was not used after all. In the meantime, everybody was asking, if scrip should be widely authorized, would we be on or off the gold standard? Many were the bets made in regard to going off the gold standard. Many were the speculations, too, as to the effects of the banking settlement on commodity prices. If we went off the gold standard, of course prices of commodities would rise, it was said. But it was being also said that they might not rise a great deal. But for six weeks not an official word was breathed about the sacred subject of the gold standard.

Emergency Banking Requirements

On March 9, President Roosevelt was ready to submit emergency banking legislation, and sent a short special message to Congress. Before the day had passed, both the House and the Senate had passed the bill, and the President had signed it. In the House it passed unanimously; in the Senate it passed by seventy-

three votes to seven. The Act affirmed and validated all the banking proclamations and orders issued by President Roosevelt and William H. Woodin, Secretary of the Treasury. To the executive branch of the government was given control over banks, currency, transactions in gold and silver, including foreign exchange. Every member-bank of the Federal Reserve System was required to secure authority to open from the Secretary of the Treasury, with the approval of the President. Penalties for violators of the Act were fixed at a maximum of $10,000 fine and ten years' imprisonment. The Secretary of the Treasury was empowered to ask for delivery of all hoarded gold held by any individuals in the country. The Federal Reserve Banks were authorized to expand the circulation of currency known as Federal Reserve Bank notes, redeemable in "lawful money of the United States." These might be issued to the value of one hundred per cent of the government obligations, or to the value of ninety per cent of other securities, deposited as security. Federal Reserve Banks were permitted, until March 3, 1934, to make bank note advances to their member banks on time or demand notes secured by collateral which had not previously been eligible. The Reserve Banks might even make ninety-day bank note advances to individuals, corporations, or partnerships against promissory notes which were secured by government bonds. Thus was provision made for authority to issue plenty of currency. But we were still apparently not in condition to be told that we were off the gold standard!

A new profession was created by the Act—that of "conservator" of ailing banks. (It was even announced in Washington that the correct pronunciation was con-

ser-vá-tor.) Banks which needed them might operate on a restricted basis, and permit depositors to withdraw a proportion of their deposits. (Experience later indicated it was usually to be a small proportion.) The Controller of the Currency was to appoint the conservators. He might permit them to receive new deposits, but these funds must be segregated and subject to withdrawal without restriction. The reorganization of closed banks was to be facilitated. If depositors owning seventy-five per cent of a bank's deposits, or two-thirds of the stockholders, or both, approved of a plan for reorganization, the Controller might make it effective if he approved. National banks were empowered to issue preferred stocks, and the Reconstruction Finance Corporation was permitted to purchase such stocks or to issue loans against such issues, whenever the Secretary of the Treasury, with the approval of the President, deemed it necessary to supply funds for the organization or reorganization of banks. An appropriation of $2,000,000 was made for the expense of administration of the Emergency Banking Law.

The President Becomes Educator

On Sunday, March 12, at 10:00 P. M., President Roosevelt went on the air to explain the banking law and the methods whereby the sound banks would be opened. The speech began not with "My fellow citizens," but with "My friends. . . . I want to tell you what has been done in the last few days, and why it was done, and what the next steps are going to be."

The many proclamations from state capitals and from Washington must have been confusing. He would try to explain in lay language. At times he was very elementary indeed. "When you deposit money

in a bank, the bank does not put your money into a safe deposit vault. It invests your money in many different forms of credit. . . . A comparatively small part of the money you put into the bank is kept in currency.

"The new law allows the twelve Federal Reserve Banks to issue additional currency on good assets, and thus the banks that reopen will be able to meet every legitimate call. The new currency is being sent out by the Bureau of Engraving and Printing in large volume to every part of the country. It is sound currency because it is backed by actual, good assets.

"Another question you will ask is this: Why are all the banks not to be opened at the same time? The answer is simple and I know you will understand it: Your government does not intend that the history of the past few years shall be repeated. We do not want and will not have another epidemic of bank failures."

On Monday, March 13, the sound banks located in the twelve cities having the Federal Reserve Banks might open; on Tuesday those in centers having recognized clearing houses, about 250 in all; on Wednesday, those in the smaller towns and cities, provided they could be examined in time. A late opening was not to be construed as a failure. State banks would open on the same schedule, with authority coming from the state banking departments. Some state banks in need might borrow from banks which were members of the Federal Reserve System or from the Reconstruction Finance Corporation.

"Let me make it clear to you that the banks will take care of all needs—except, of course, the hysterical demands of hoarders—and it is my belief that hoarding

during the past week has become an exceedingly unfashionable pastime."

The schedule announced was followed. Soon banks having about three-fourths of the deposits were opened. Commodity prices began advancing slightly, as did prices of securities. It appeared that standards for opening banks varied from state to state. There were a few dark spots, for example, Detroit and Cleveland, which had large banks that could not be opened. In some cases recapitalization had been carried out while banks were closed.

Currency began returning to the banks at once. On March 24, the Emergency Banking Act was amended to permit state banks which were not members of the Federal Reserve System to apply to the Reserve Banks for direct loans when eligible security is presented and when the respective state banking departments declare them to be in a sound condition. During the time when a state bank is indebted to a Reserve Bank it must comply with the regulations of the Federal Reserve Act.

After getting out of the daze of the crisis, bankers and experts began to make appraisals of the situation. The deflationary influence of tying up about twenty per cent of the country's bank deposits began to be pondered, leading within a month to a renewed demand in Congress for inflationary measures. For the opening of the banks had made it plain that, as the President had said over the radio on March 12, there was "nothing radical in the process." He was carrying out the campaign promise of "much more rigid supervision." The thorough banking reform needed was to be tackled some time later. Congress would be kept in session only for several other emergency matters.

Banking Reform

It stayed in session long enough to authorize the President to use definite inflationary steps, if needed (see Chapter III) and (unexpectedly) to enact a comprehensive banking law shortly before adjournment. Almost by accident the Glass-Steagall Act of 1933, providing amendments and additions to Federal Reserve legislation and making far-reaching changes in the banking system, was passed. On the afternoon of June 12, the day the London Economic Conference opened, the House of Representatives was waiting for reports from the Senate. A Republican leader asked a Democratic colleague for his plans for the afternoon. The Democratic leader replied, among other things, that there was a possibility of a conference report (from representatives of both houses) on the banking bill. The Republican leader replied hastily that he thought the gentleman must be mistaken. But the gentleman was not in error. It was just the new tempo of action.

The comprehensive banking bill was again sponsored by Senator Carter Glass of Virginia, who had persistently kept the subject of bank reform before Congress for some years. Most seasoned observers thought he would again be unsuccessful. The Senate and the House early came to serious disagreements. Changes were made which Senator Glass did not relish at all. For example, he had never been enthusiastic about attempts to insure bank deposits. But so strong was sentiment in Congress for this feature of the bill that the senator and others capitulated. The Glass-Steagall bill was promptly signed by the President.

"This bill rests upon the theory that banking which is not safe for depositors ought to be prohibited by

law," said Representative Henry B. Steagall of Alabama when reporting the bill to the House. He emphasized, too, that "the bill was not written to please the bankers." The most controversial part of the Act, opposed to the last ditch by the American Bankers' Association, is the insurance of bank deposits. A temporary plan is to be put into effect on January 1, 1934, unless the President by proclamation puts it into operation earlier. By July 1, 1934, a permanent deposit plan is to be arranged. Under the temporary plan only $2,500 in any account will be insured. After July 1, 1934, a deposit of $10,000 is to be insured one hundred per cent; one of $10,000 to $50,000, seventy-five per cent; one above $50,000, fifty per cent. A provision covering accounts up to $2,500 would insure about ninety-six per cent of all depositors. A Federal Deposit Insurance Corporation has been created, for which $150,000,000 has been appropriated from the Treasury. In addition, each Federal Reserve Bank must pay to the corporation one-half its surplus as of January 1, 1934, one-half to be available then, the other half subject to call later. All local banks participating must pay one-half of one per cent of the total deposits, half of the amount payable July 1, 1934, and the remainder subject to call. Member-banks are prohibited from paying any interest upon their demand deposits. From these three sources, it is expected that a total fund of $500,000,000 will be available. The corporation may also issue bonds, notes, *etc.*, up to three times the amount of its capital.

Members of the Federal Reserve Banks must participate in the Federal Deposit Insurance Corporation. A bank not having a national charter may participate in the plan by subscribing for its stock upon presenting

a certificate of solvency from the state banking department, and after meeting certain requirements of the Insurance Corporation. But state banks, in order to continue to have their deposits insured, must become members of the Federal Reserve System by July, 1936. It is the expectation of many that this requirement will encourage or force the state banks to join the system. Thus far they have been hesitant and reluctant to do so, and have made a national system impossible.

Drastic changes are made to achieve a divorcement between commercial and investment banking. One year after the law went into effect it will be unlawful for a company engaged in the handling of securities to engage in banking. This applies particularly to the large private banks which have been doing both kinds of business. Also, all national and other banks which are members of the Federal Reserve System must within a year dispense with their "affiliates" which have been engaged in the security business. This is aimed mainly at large city banks which have had such subsidiaries. Meanwhile, "affiliates" become subject to examination and regulation by Federal Reserve authorities. The Federal Reserve Banks are directed to control the amount of a bank's funds used for speculative purposes, by ascertaining what proportion of its funds are being used for speculation when a member-bank applies for credit from a Federal Reserve Bank. This would authorize "direct pressure" upon member-banks if a Reserve Bank deemed it necessary to prevent speculation. Banks which are members of the Reserve System are empowered to establish branches in those states that permit branch banking. These now number twelve—Utah, Nevada, Oregon, Washington, Arizona, California, Delaware, Maryland, North Carolina, South

Carolina, Rhode Island, and Vermont. Virginia permits it only under rigid restrictions.

Mutual savings banks are permitted to join the Federal Reserve System. The Federal Reserve Board is given power to fix interest rates on time deposits of member-banks and to remove officers of banks which violate the banking law and continue unsafe and unsound practices after they have been warned by the Controller of the Currency. Officers of banks are not allowed to borrow from their own institutions, and the minimum capital requirement for national banks is raised to $50,000 in places having six thousand or less population.

Certain effects of the law are already evident. Bankers great and small have in considerable numbers denounced it or predicted dire peril. The large urban banks shout that they must pay most of the bill for deposit insurance. (This is because they have the resources.) They say, not very positively, that some large national banks are considering withdrawing from the Federal Reserve System, adding that they are weighing advantages and disadvantages. They threaten to test the law in the courts. They will contend that the deposit insurance scheme deprives them of property without "due process of law." When they stopped paying interest on demand deposits, the large New York banks lost a large volume of demand deposits which banks from the interior had been keeping there. The experiences of nine states in attempting to insure or guarantee bank deposits were trotted out. All were reported to have been unsuccessful.

At the New York State Bankers' Association, A. A. Berle, Jr., of the Staff of the Reconstruction Finance Corporation, and a member of "the Brain Trust,"

urged bankers to divest themselves of other interests and to become bankers. "The game as it was played" had shown too many weaknesses in the entire banking system. What was needed, he held, was that bankers engage in public service in the spirit of trusteeship. The Glass-Steagall Act of 1933, he said, should be regarded as only a transition to more fundamental legislation.

Rigid regulation and supervision of banking, to a degree which rugged individualists never dreamed of, are now being attempted.

CHAPTER III

GOLD AND INFLATION

> The Administration has the definite objective of raising commodity prices to such an extent that those who have borrowed money will, on the average, be able to repay that money in the same kind of dollar which they borrowed.—*Franklin D. Roosevelt.*

"The conscience of the court is shocked," exclaimed an eminent justice of the Supreme Court of the State of New York when he reluctantly confirmed the report of a referee on a proceeding for foreclosure of a mortgage. At the sale of the property, the creditor had bid a nominal $300, then sued the debtor for a "deficiency judgment" of $5,200. As the law of the state provides, the creditor may not only take the foreclosed property into his possession—he may also try to collect the difference between the amount of the mortgage and the price bid at the forced sale. There were no normal markets at foreclosure sales: only creditors were bidding, and they were sometimes inclined to be exploiters rather than to bid market value. At least one justice of the Supreme Court of New York vacated a deficiency judgment in a foreclosure action, declaring it was his duty to right a legal wrong. (After permitting abuses to continue for three years, the state legislature, in special session in 1933, modified the law governing procedure in deficiency judgments, and authorized a court to determine "fair and reasonable" value for foreclosed property.)

A condition which had shocked the conscience of a judge in New York almost resulted in the lynching of another in Iowa. The drastic drop in the prices of

commodities, reflected in declining incomes for farm producers and many owners of urban property, forced many a crisis in the relations of debtors and creditors in localities throughout the nation. A large percentage of mortgages were in a precarious state. In New York the "guaranteed mortgage" companies were taken over by the state banking and insurance departments, with the result that the "guarantees" were all suspended. Debtors were clamoring for adjustments of interest rates, for writing down values of mortgages or other obligations. In Iowa two professors at the State Agricultural College worked out a plan for flexible rent and interest, adjusted to the price level, and gave farmers sample contracts and forms. In city and country the issue was joined: debts must be written down if prices and incomes would not rise. But could we not do something effective to start prices up?

The Drive for Inflation

Man was again in conflict with money. The Twentieth Century Fund issued a report which said that "sixty per cent of urban mortgages and real estate securities are now in difficulty," and expressed the opinion that urban real estate, with a burden of $35,000,000,000 of debt, presented a more serious situation than farm real estate, with a total mortgage debt of $8,000,000,000. There were various estimates of the total internal debt of the people, ranging from about $135,000,000,000 to $200,000,000,000. Although the estimators could not agree on the totals, it appeared that interest and "services" on debts, which took only about six per cent of the national income in 1913-14 and nine per cent in 1929, were taking something around twenty per cent of the shrunken national income of 1932-33.

Much indebtedness was contracted for when commodity price levels were considerably higher than those of 1932 or 1933. The acute situation was well illustrated in the case of a Michigan farmer. He had bought a small farm in 1926 for $4,000, paying $2,000 and giving a mortgage for the balance. By early 1933 his entire farm had a market value of only $2,000. He stood up in meeting, asking if it was fair, that he, the "owner" of equity that had vanished, should take all of the loss. He presented his demands for "an honest dollar."

In Nebraska a large group of eight hundred farmers who had kept books on their 1932 operations discovered among their losses at least one other thing: "It's not so much the yield as the market price that counts." The National Coöperative Council, having as constituent members the large farm coöperatives, sent the following communication to President Roosevelt:

"We earnestly solicit your attention to the necessity for bringing about a rise in commodity prices by means of a change in the monetary system. The only alternative is continued cruel deflation, involving continued bankruptcies, foreclosures, and human distress. However, we emphasize the necessity for sound control of inflation. Therefore, we ask that the value of the dollar be regulated in such a manner as to establish and maintain a reasonably steady all-commodity price index at approximately the 1921-30 level. Such regulation, we believe, should be under the control of a permanent non-partisan board of representatives of agriculture, labor, and industry—whom our money system should serve." The National Grange put forward the slogan: "Reflate or repudiate!"

From professional economists came opinions in favor

of "reflation." They challenged the social intelligence of the country to control its credit and monetary systems so as to bring about a rise in commodity prices to permit debts to be more easily paid, and then to manage its currency and credit so as to achieve greater economic stability. The Super-inflation of 1927-1929 was being followed by the Great Deflation of 1930-1933. Was not a managed currency a technique to turn the tide? If the tide was not stopped, would it not result in more widespread bankruptcy and much greater disaster than we had witnessed? Had we reached the point where we could no longer maintain our currency relatively stable, and on the gold standard, in the face of the terrific collapse of prices for primary producers? Would creditors generally have the wisdom and the statesmanship to engage voluntarily in adjustment of debts to lower price levels? There seemed a little hope here and there that creditors would, but by and large they simply held on to the enhanced purchasing power of their income, not realizing the realities of the situation.

Meanwhile the silver bloc in Congress secured a very large vote on a proposal to remonetize silver. The country seemed to be getting near to some form of effective inflation. Debate raged, of course, as to what form was wise, what unwise. There was the school which wanted only credit inflation—the expansion of bank credit which had been sought for so long and had not been achieved; or which said the Federal Reserve Banks should buy government bonds in larger quantities, force excess reserves upon the member-banks, and force them to expand commercial loans. There were other schools which said that only currency inflation would have the necessary effects upon

commodity prices. These were the silverites, or those in favor of revaluing the amount of gold in the dollar, or those favoring "fiat" paper money. At least a half dozen forms of inflation were being debated, with confusion reigning. There were dire predictions that we would soon go the way of post-war Germany, and destroy all values. To these persons were cited the happier experiences of Sweden, with a managed currency during the past two years. It was being said that a currency off the gold standard could not be managed, and that it was humanly impossible to resist more stimulants after one had had "a shot in the arm."

In Congress, seventy-five members of the House of Representatives and ten senators signed a petition to President Roosevelt asking him to appoint the Rev. Charles E. Coughlin, well-known Catholic priest of Michigan, a popular radio figure, and an advocate of revaluing the dollar, as an advisor to the World Economic Conference. They said of Father Coughlin: "He is a student of world affairs, economics, and finance; and has the confidence of millions of American citizens. We believe that his presence at the Conference would instil confidence in the hearts of the average citizen. . . ."

Then, by a few well-defined steps the Administration became, to a large degree, a debtors' government—aiming both to raise prices and to refinance many debtors in distress.

The Actions Taken

On April 19, President Roosevelt issued an executive order prohibiting the further export of gold, acting under the authority of the Emergency Banking Law.

That afternoon, Secretary Woodin announced that we were off the gold standard. In reality, we had been off it since March 4. But when a patient is seriously distraught, one does not inform him of bad news. However, the commodity and stock exchanges did not regard the announcement as bad news and soon gave the conventional response. Prices of commodities and stocks started advancing.

On May 12, Congress passed the farm relief bill with the amendment granting President Roosevelt the power to inflate the currency and credit by several specific methods, if he deems them necessary and advisable. There was much comment that President Roosevelt had asked for this method of handling further inflationary steps, if they were needed, rather than have them taken directly by Congress. After the large vote on silver, there was no longer any doubt that the new Congress would sanction inflationary measures.

According to the new bill, whenever the President finds upon investigation that the foreign commerce of the United States is adversely affected because of the depreciation of currency of any government or governments, or that action is necessary to regulate or maintain the parity of currency issued by the United States, or that an economic emergency requires expansion of credit, or that an expansion of credit in the United States is necessary to secure stabilization of various currencies by international agreement, he may:

(1) Direct the Secretary of the Treasury to enter into agreements with the Federal Reserve Board and the Federal Reserve Banks whereby the Banks will, and are authorized to, purchase up to $3,000,000,000 worth of securities of the federal government, and

hold them in their portfolios for agreed periods of time. (A moderate bond-buying program was begun by the Reserve Banks in May and speeded up in August and September, but on no scale to have had any effect on expansion of credit.) If for any reason additional measures are needed in the judgment of the President to achieve the purposes outlined above, he may:

(2) Issue $3,000,000,000 worth of legal tender currency for the purpose of meeting maturing bonds and other obligations of the United States or for the purpose of purchasing government securities. Four per cent of such notes outstanding must be retired every year.

(3) Reduce the weight of the gold dollar but not by more than fifty per cent. He may also fix the weight of the silver dollar, and establish a ratio between it and the gold dollar in order "to stabilize domestic prices or to protect foreign commerce against the adverse effect of depreciated foreign currencies and provide for the unlimited coinage of such gold and silver at the ratio" fixed—a procedure which would mean a return to bi-metallism.

(4) Accept for a period of six months silver in payment of principal and interest on foreign debts, not to exceed a total of $200,000,000, at a price not over fifty cents an ounce in currency of the United States. Any silver so received must be deposited in the Treasury. It may serve as a basis for issuing silver certificates to pay government debts, or it may be coined into dollars and subsidiary coins for the needs of business. Such silver certificates, if issued, may not be retired or cancelled but must be reissued and kept in circulation.

To provide for a curb on inflation, the Federal Re-

serve Board, with the approval of the President, may declare an emergency to exist when it deems credit to be overexpanded, and may increase the reserve balances required to be held against demand and time deposits of banks which are members of the System. Such a step would tend to make the member-banks move to contract outstanding credit.

To aid in the expansion of credit, the Reconstruction Finance Corporation was authorized to make loans to credit agencies closed or in process of liquidation, including the receivers of banks that have failed. The Corporation was authorized to loan up to $50,000,000 to insurance companies against their preferred stock, or to purchase their preferred stock. In states where insurance companies may not issue preferred stock, the Corporation may purchase their "legally issued capital notes," or lend against such notes. No assistance may be given to a company which pays an officer a salary of more than $17,500 a year, and a company receiving a loan may not increase the compensation of an officer above that amount while it owes money to the Corporation.

Repeal of the Gold Clause

Perhaps the most controversial of all the measures was the resolution passed jointly by the House and Senate signed by President Roosevelt on June 5, whereby all obligations, governmental and private, were declared to be payable in legal tender, no matter whether contracts stated that they were payable in gold or not. The resolution had on its surface the seemingly innocuous purpose of "assuring uniform value to the coins and currencies of the United States." Actually, it took us legally off the gold standard. The measure was

rushed through both houses of Congress because the Treasury did not wish to put the gold clause into the new securities which were to be issued on June 15. The obligations issued were stated to be payable on maturity "in legal tender."

Was this the wholesale cancellation of contracts? Was this repudiation of obligations of the government? Would it lead to a "loosening of moral fiber" the world round? If the government of the United States was repudiating a promise to pay its obligations in gold coin, what should we expect of the nations which owed us money? What would other countries do when paying interest on securities owned by American investors? In the Senate, William E. Borah of Idaho stated:

"It has been said that this is repudiation. I am not prepared to controvert that statement. But the bondholder must take his place in the sacrifice which the American people have been enduring. We must cease to pay tribute to the gold standard at the expense of the average citizen of the United States."

The New York Times contended editorially that this was "repudiation admitted." Other great urban journals, presumably the spokesmen of the creditor class rather than the upholders of eternal moral verities, stormed and raged, or became hysterical on the subject. But there were students of law and ethics who calmly said not only that there was ample judicial precedent for the legality of the measure, but also that it might be ethically defended as a means of restoring equity between creditor and debtor. One argument ran thus:

"Drastic changes in conditions which succeed the making of an agreement must always be considered when the time comes to fulfil the agreement. Shifting

situations are always a part of the picture, and make for changed relationships between contractors. All contracts should eventually be modified when they are not in line with the realities of a situation. The action of the federal government puts its contracts in line with realities."

A Managed Currency?

Hoarded gold was called in, with May 1 set as the dead-line. Publicly, a few bold men stood on their constitutional rights, defying the government to come and take their gold. One holder of $120 in gold was disappointed when no prosecution was attempted. The test would be made on bigger game. After May 1, holders of gold were called upon by agents of the Department of Justice, and moral suasion was tried. About a half-billion dollars in gold or in gold certificates were said to be outstanding in September, although there were no official estimates. The names and addresses of many alleged holders of gold coin were found to be fictitious. Threats to publish the list of hoarders were made periodically in Washington, but no list was published. A new dead-line was set by executive order of the President for September. The President also by executive order relaxed the regulations on exportation of gold, permitting newly mined gold to be shipped abroad under certain conditions.

In London, Ralph W. Morrison, one of our delegates to the World Economic Conference, said to newspapermen that there was not the "slightest chance" that the American dollar would return to its former parity. In international exchange the dollar fluctuated considerably until by September it had declined over thirty per cent when compared with the British pound and the

French franc. The Eastman Kodak Company said that increased profits for the first six months of 1933 as compared with 1932 were due to a considerable extent "to improvement in results of foreign subsidiaries, attributable in large part to appreciation of foreign currencies in relation to dollar exchange." The Department of Labor reported a six per cent advance in the combined index of wholesale prices in July over June, the fifth consecutive month to show an increase.

The Federal Reserve Board reported on August 25 that industrial production rose in July to the average for the years 1923-25. Although the combined business indices started pointing downward in August and early September, the usual summer decline in business had been replaced by some evidences of recovery. *The Chicago Tribune* carried a headline reading: "All signs point toward return of happy days." The skeptical said this was simply a puff due to our going off the gold standard, or to an effort on the part of business to get production out of the way before codes went into effect (see Chapter IV). There were well informed persons who even held that monetary factors had nothing to do with the changes in the business cycle.

From Washington came a news dispatch saying that "Treasury officials" had admitted that a "logical outcome" of the monetary policy outlined by President Roosevelt in his frank message to the World Conference (see Chapter VIII) would be a managed currency based on commodity prices. After the proper point for stabilization was reached, then "if prices should tend to go down, the value of the dollar would have to be depreciated in order to equalize the fall. If prices should rise, the dollar would have to be made more

valuable also, thus checking the price increase. Such a currency would be unique in the annals of the world."

The United States News summed it up by saying the government was "developing a new dollar with goods and prices at a fixed ratio. . . . Either prices must be controlled or the monetary unit must be varied in value to neutralize price movements as far as possible." In *The American Magazine* Walter Lippmann wrote:

"The decision to abandon the gold standard and to manage money deliberately was the only alternative to a headlong rush into government control of all economic activity. . . . If the monetary system is planned to keep the purchasing power of the dollar stable, then it will not be necessary for the government to end private capitalism and substitute a centralized control. . . . It is said by some that 'tinkering with the currency' is radical. On the contrary, it is the one reform which every one who prefers private property to communism or fascism should insist upon."

Professors G. F. Warren and F. A. Pearson of Cornell called it a "compensated dollar," explaining as follows:

"The compensated dollar is a proposal to establish by law a currency redeemable in gold, but the weight of gold for which the dollar would exchange would vary with the index number of wholesale prices of all commodities. That is, if prices rose one per cent, the weight of gold for which the dollar would exchange would be raised one per cent. If prices fell one per cent, the dollar would exchange for one per cent less gold."

Professor Warren, vigorous advocate of the compensated dollar, who flew from Ithaca shortly after March 4 to the White House, was appointed advisor

on fiscal matters in July, along with Professor James H. Rogers of Yale University. They worked, it was remarked, not in the Treasury but in the Department of Commerce. But Ralph West Robey, financial editor of *The New York Evening Post,* held: "The commodity dollar is so impracticable it does not seem probable Roosevelt will adopt the idea." A popular description was the "rubber dollar." On the possibility of attaining a managed currency, or on the advisability of attempting it, economists and financial experts revealed themselves by public comments to be hopelessly divided. The international implications of the domestic monetary program are discussed in Chapter VIII, "Domestic *vs.* Foreign Policy."

By September, none of the new techniques of inflation authorized by Congress had been used by the President. But inquiries about and demands for further inflation became more numerous. Deposits in commercial banks open on June 30 (the latest comprehensive report) continued to be considerably less than those in banks open on December 31, 1932, in spite of the fact that eighty-five per cent of the institutions were said to be open. Deflation of commercial bank credit had thus continued. By September it was also evident that commercial banks were not expanding credit for the purpose of assisting the N R A program. They drew fire from General Hugh S. Johnson (see Chapter IV). A group of business men and farm leaders known as the Committee of the Nation continued its demands for effective currency inflation, for sufficient devaluation of the gold content of the dollar to bring back the general price level of 1926. There were indications, however, that certain high administration officials wanted to use currency inflation only as a

matter of last resort. *The New Republic* said editorially on September 6: "A majority of the country's best economists believe the devaluation of the dollar is much overrated as an instrument of recovery." "The Brain Trust" was reported to be badly divided on the next steps in inflation. Professor Raymond A. Moley, formerly of Columbia, head of the Trust, had resigned as Assistant Secretary of State, to edit *Today*. Messrs. Tugwell and Warren were said to be for immediate steps for devaluation and a compensated dollar. Messrs. Rogers and Berle seemed to want to wait to see more clearly to what extent devaluation should be made, and to learn the effects of the public works program.

The Business Week said editorially on August 5:

"We shall have inflation," because we must have inflation. The argument ran: "Recovery . . . must be based on rising prices. . . . Rising prices is a pretty phrase, but it means, in cold fact, cheaper dollars. The rise in prices so far has been based mostly on discount of the President's specific promise to cheapen the dollar—exact technique wisely not specified. The price rise will collapse eventually unless the promise is made good. There is specific promise of inflation. Non-fulfillment would be political suicide."

And there were those who felt that nothing fundamental was being done about the top-heavy debt structure. Bassett Jones said in his new book, *Debt and Production,* that the curve of the volume of debt had increased at much the same rate as the curve of the volume of production up to about the year 1911; but after 1911 the debt curve advanced rapidly while the growth of production was slowing down. The two curves are now badly out of line. It is contended that

we are not giving debt the "support" it needs in the form of production. "It follows," thinks Mr. Jones, "that a new credit structure is required in which the total is automatically controlled by the total of production, and in which the interest rate is a function of growth in production."

Stuart Chase held, in reviewing Mr. Jones' book in *Common Sense:*

"Nothing tangible has been done to meet this fundamental maladjustment. . . . Washington has boldly and courageously accepted the philosophy of planning as against the anarchy of *laissez-faire,* but has as yet announced no plans for handling this devastating condition—if it be a condition. Dwarfs are being eliminated while the giant remains sodden and defiant in his track. Which is not to say that the Administration will not face the condition when it becomes more clearly obvious. Indeed the Administration will have to, if, at the time, there is nobody else to do it."

The conflict between debtors and creditors seemed far from being satisfactorily resolved. Numerous debtors still looked hopefully to further effective inflation as a means of raising prices. Numerous creditors shook in their boots at the prospect. They feared the loss of considerable purchasing power, or the possibility that the processes could not be controlled and their resources would simply vanish.

CHAPTER IV

A PLUNGE INTO INDUSTRIAL PLANNING

We are at the threshold of a fundamental change in our economic thought.—*Franklin D. Roosevelt.*

The president of the American Petroleum Institute, A. J. Byles of New York, was speaking to the "oil men" gathered at Chicago to prepare a code of fair competition. The National Industrial Recovery Act must be described as "an economic revolution," he said. With all possible speed, a "sound and fair code" for the oil industry should be drawn up. Those present were asked seriously to "weigh the consequences of a discordant meeting." He urged them to make up their minds quickly, or else Uncle Sam would decide some things for them. "Because business is picking up, our spirits are brighter, but, unless we can keep the wheels going, tragedy such as we have never seen will overtake the country."

President Roosevelt did not spare superlatives in his public statements about the Administration's greatest measure of all:

"History probably will record the National Industrial Recovery Act as the most important and far reaching legislation ever enacted by the American Congress. It represents a supreme effort to stabilize for all time the many factors which make for the prosperity of the nation. The law I have just signed was passed to put people back to work—to let them buy more of the products of farms and factories and start our business at a living rate again. This task is in two stages—first, to get many hundreds of thousands of the unem-

ployed back on the payroll by snowfall; and second, to plan for a better future for the longer pull. . . . As in the great crisis of the World War, it puts a whole people to the simple but vital test: Must we go on in many groping, disorganized, separate units to defeat, or shall we move as one great team to victory?"

The Origin of Industrial Planning

The National Industrial Recovery Act grew out of the despair and confusion which had brought on the banking crisis. If consuming power was to be revived, employment increased, brutal competition and overproduction dealt with, then "drastic arrangements," as Arthur Krock put it in *The New York Times,* "must be made for business." For on March 4 no less than 35,000,000 persons might be counted among the nation's unemployed families. Because of the frustration of all previous efforts to achieve recovery, large groups of leaders of manufacturing, trade, and finance were ready to cede a part of their precious liberty of action for the purpose of making a more drastic attempt at dealing with the economic crisis. As previously noted, the deflationary effect of suddenly tying up billions of deposits in closed banks was immediately felt and pondered. The deflationary results of cutting veterans' compensation, and of reducing the ordinary expenses of the government, also came into the picture. To bring reserve buying power into the markets, commodity prices must be started up—people and organizations had always bought most heavily on rising markets, at least so some arguments ran. But cutthroat competition continued to harass industry, driving more and more wages to sweat-shop levels. Although monetary and credit manipulations might

bring about some rises in prices, was not a huge program of government spending needed in order to "prime the pump"? Furthermore, if urban consumers were to pay higher prices for farm products, the purchasing power of urban workers must be increased.

The forms of the main planks in the industrial recovery program were, of course, decided by the President. Much credit for starting the legislative side of developing the National Recovery Act, must go, it seems clear, to Senator Robert F. Wagner of New York. He brought together individuals and groups with varieties of industrial experience. Backed by "the Brain Trust," a piece of legislation took form about the middle of May. Another short, pointed message was sent by President Roosevelt to Congress in giving support to the proposal. In language the layman could understand he summed up the provisions of the National Recovery Bill as follows:

"My first request is that the Congress provide for the machinery necessary for a great coöperative movement throughout all industry in order to obtain wide re-employment, to shorten the work week, to pay a decent wage for the shorter week, and to prevent unfair competition and disastrous overproduction.

"Employers cannot do this singly or even in organized groups, because such action increases costs and thus permits cut-throat underselling by selfish competitors unwilling to join in such a public-spirited endeavor.

"One of the great restrictions upon such coöperative efforts up to this time has been our anti-trust laws. They were properly designed as the means to cure the great evils of monopolistic price fixing. They should certainly be retained as a permanent assurance that the old evils of unfair competition shall never return. But

the public interest will be served if, with the authority and under the guidance of government, private industries are permitted to make agreements and codes insuring fair competition. However, it is necessary, if we thus limit the operation of anti-trust laws to their original purpose, to provide a rigorous licensing power in order to meet rare cases of non-coöperation and abuses. Such a safeguard is indispensable.

"The other proposal gives the Executive full power to start a large program of direct employment. A careful survey convinces me that approximately $3,300,000,000 can be invested in useful and necessary public construction, and at the same time put the largest possible number of people to work. . . ."

It is reported that many converts were won for the plan during the process of framing the law, and during congressional discussion of it, even though it drew a good deal of fire. A battle raged over the part giving the executive department of the government power to license if it needs it in order to enforce an adopted code of fair competition. Surely this feature was unconstitutional, announced the president of the National Association of Manufacturers, harking back to the Supreme Court decision on the rather well known Oklahoma ice case, which involved the right of a state to license dealers. On June 4 a momentous piece of news came from Washington. More than 130 trade associations were ready to back the President's recovery program, were willing to raise wages, and "in many cases" to reduce working hours, if effective means for handling cut-throat competition could be put into operation. Some observers say, in trying to give an explanation of why business men "were standing for it," that the emphasis upon "self-help" appealed to them. Indus-

try was to be asked to agree upon its own codes, to write out what it regarded as its specifications for recovery, to state its own ideas of what the public interest required. These voluntary agreements would be drawn up, it should be emphasized, by functional groups, most of them already organized and operating in one way or another. The government's duties were to be supervisory and regulatory, acting for all the people in the public interest, but with specific grants of power to use ways and means of exercising drastic control if necessary.

The framers of the act drew heavily upon the experience of the War Industries Board, which had achieved some coördination of industry, and upon various of the multitude of suggestions for economic planning which had been made during previous years. At least in its emphasis upon the part of the voluntary trade association, the plan resembled suggestions Raymond A. Moley once drew up as a means of grappling with racketeering, and also those of the well known plan of Gerard Swope, president of the General Electric Company. The ideas of Sir Arthur Salter, the noted British economist—and probably of a number of others—also seem to have had considerable influence.

Industrial Planning

The National Industrial Recovery Act, passed June 16, has two parts—the first dealing with control of industry, the second with a $3,300,000,000 public works program.

The broad purposes of Part I are perhaps clearly revealed in the words of the declaration of policy which are a part of the text:

"A national emergency productive of widespread unemployment and disorganization of industry, which

burdens interstate commerce, affects the public welfare, and undermines the standards of living of the American people, is hereby declared to exist. It is hereby declared to be the policy of Congress to remove obstructions to the free flow of interstate commerce which tend to diminish the amount thereof, and to promote the organization of industry for the purpose of coöperative action among trade groups, to induce and maintain united action of labor and management under adequate governmental sanctions and supervision, to eliminate unfair competitive practices, to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and to conserve natural resources."

The policy outlined under Title I is to be in effect for two years unless the President proclaims at an earlier date that he has found the emergency ended.

To carry out these purposes the President may delegate his functions and powers to such officers and employees as he may designate; and he may establish an industrial planning and research agency to assist him. He may approve codes of fair competition submitted to him by trade associations if they are representative of trades or industries and if the codes impose no inequitable restrictions and are not designed to promote monopolies. As a condition of his approval, he may require reports and accounting methods which enable him to protect consumers, competitors, and employees. An approved code shall constitute the standards for a trade or industry and violations shall be deemed an unfair method of competition within the meaning of the Federal Trade Commission Act. United States District Courts are given power to restrain and prevent violations, and district attorneys

must institute proceedings in equity to restrain and prevent violations. Violators are subject to a fine of $500, each day of violation constituting a separate offense. The President may increase tariffs or impose quotas upon or embargoes against foreign goods in order to carry out the purposes of the Act.

If a trade or industry does not present a code for approval and if complaints are made to the President that abuses exist inimical to the public interest and contrary to the policy of the Act, he may prescribe a code, which shall have the same effect as a code submitted and approved.

The President may make agreements with, or approve voluntary agreements between, a labor organization and a person or between industrial organizations if he believes that the agreements will aid in effectuating the purpose of the Act. If he finds that destructive wage or price cutting, or other activities contrary to the purposes of the Act, are being practiced he may, after holding hearings, license business enterprises in order to make effective a code of fair competition or an agreement. In that case no person shall "engage in or carry on any business, in or affecting interstate or foreign commerce, specified in such announcement, unless he shall have first obtained a license issued pursuant to such regulations as the President shall prescribe."

Violation of the conditions of a license subjects the offender to the suspension or revocation of his license. If he tries to do business without a license he may, upon conviction, be fined $500 and imprisoned for six months, each day of violation constituting a separate offense. The licensing provision shall cease to be in effect one year after the Act was passed, or sooner, if the President by proclamation or Congress by joint

resolution declares that the emergency recognized by the provision has ended.

Every code, agreement, and license must stipulate:

"That employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection;

"That no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing; and

"That employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President."

The President must, "so far as practicable, afford every opportunity to employers and employees in any trade or industry or subdivision thereof . . . to establish by mutual agreement, the standards as to the maximum hours of labor, minimum rates of pay, and such other conditions of employment as may be necessary." When they are approved they shall have the same effect as a code of fair competition.

If mutual agreements are not thus made, the President may investigate the conditions of employment in a trade or industry and, after holding hearings, prescribe a code of fair competition fixing maximum hours, minimum rates of wages, and other conditions of employment. In doing this he may "differentiate

according to experience and skill of the employees affected and according to the locality of employment; but no attempt shall be made to introduce any classification according to the nature of the work involved which might tend to set a maximum as well as a minimum wage."

Special provisions are included in the National Industrial Recovery Act to avoid conflict with the agricultural act and to enable the President to deal with conditions in the oil industry. He may divorce any pipe-line company from a holding company which by unfair practices and exorbitant rates seeks to create a monopoly. He may "prohibit the transportation in interstate and foreign commerce of petroleum and the products thereof produced or withdrawn from storage in excess of the amount permitted to be produced or withdrawn from storage by any state law or valid regulation or order prescribed thereunder, by any board, commission, officer, or other duly authorized agency of a state" and may prescribe rules and regulations necessary to carry out the purposes of the act. On July 16 the President issued an executive order prohibiting interstate traffic of oil shipped in violation of state regulations. It aimed at restricting production of bootleg oil, also called "hot oil." In a test-case, this order was upheld in an opinion by Justice Joseph Cox of the Supreme Court of the District of Columbia. "In the law, it is recognized that necessity confers many rights and privileges that without the necessity might not be conferred."

Taking the Plunge

With considerable gritting of teeth, trade association after trade association took the dip in the cold

water of industrial planning, hoping for a glowing reaction. Many were the inquiries from business men to the government as to what was expected of them. One unofficial answer was given by Professor Paul H. Douglas, of the economics faculty at the University of Chicago, now economic advisor to Secretary Perkins, to a business group in Chicago. Business had erred, he said, in overemphasizing profits, and had failed to spread purchasing power. The consequent deflation could only be stopped by government action. Business had a chance for recovery by prompt coöperation with the government, which would try to protect the public interest.

President Roosevelt named as head of the National Industrial Recovery Administration (NIRA or NRA), General Hugh S. Johnson, recently on the personal staff of Bernard M. Baruch, and who had had large experience as administrator of the selective draft in the World War. A graduate of West Point, a lawyer, a writer of books for boys, a manufacturer of farm implements, an executive who knew how to cut corners and get things done, General Johnson certainly had versatility in his favor. The legal division of the National Recovery Administration was headed by Donald R. Richberg of Chicago, who was once a law partner of Harold L. Ickes, Secretary of the Interior. Mr. Richberg had long been counsel for the railroad brotherhoods. The advisory board of the National Industrial Recovery Administration included the Attorney General, the Director of the Budget, the head of the Federal Trade Commission, and the Secretaries of Commerce, Agriculture, and Labor. In addition small advisory boards representing industry, labor, and the consumers have been set up.

Speaking by radio to a group of bituminous coal

operators, General Johnson said they should "put into effect provisions . . . necessary to protect the willing and forward-looking . . . from the racketeers and price-cutters and those who are willing to take advantage of the unselfishness and public spirit of other men." There were about seven thousand trade associations, great and small, in the country. One of the first announcements was that General Johnson wished to deal first with the "big ten" who employed the large majority of the industrial workers of the nation. Different yardsticks might be used in measuring the big ten, such as value of output, or number of employees. If the number of workers is the index, the big ten in manufacturing are cotton goods, foundry and machine shops, railroad repair shops, steel, lumber, boots and shoes, bakeries, electrical machinery, knit goods, and women's clothing. One most important query related to prices. The National Recovery Act prohibits the creation of monopolies. But some form of price control would be a stabilizing measure. General Johnson announced that an industry might write into its code of fair competition that it would not sell below the cost of production. Repeatedly, he said that the necessity of expanding employment must be kept uppermost. He went into highly controversial territory when he asked that wages and volume of industrial production be increased before consumers' prices. He drove home the idea that purchasing power must be increased before selling prices if the expanding volume of industrial products was to be consumed. He seemed to be enunciating a policy of "profits last," and sent cold shivers down the spines of many a corporation president.

On June 20 a brief bulletin announcing procedure

was issued. The Administration was ready to receive basic codes of fair competition. On submission of codes, hearings would be held and modifications might be recommended. But the acceptance or rejection of modifications, as well as of the main code, was discretionary with the President. The initiative was up to industry. Consumers were to be protected. If an industry did not submit a code, the President might, on complaint that the public interest was being violated, or after investigation, prescribe a code for it. Messrs. Johnson and Richberg both stated publicly that "the next sixty days" would determine industry's willingness to come forward with its voluntary codes and plans. Their remarks were called "irritating" by some business executives.

The Cotton Textile Code

Public interest ran high when it was learned that the cotton textile code would be submitted first. The story of that code will illustrate the methods of NRA. The cotton textile industry was notorious for low wages, long hours, child labor, night work by women, and cut-throat competition. It was an industry, however, which had already shown considerable signs of recovery. Would something significant be done about minimum wage rates and working hours? Might one hope that child labor would be tackled? The cotton textile code was drawn up by a committee said to represent two-thirds of the plants in the country, and was submitted June 16th. It was announced that the code called for a rise of about twenty-five per cent in wages and a reduction of about twenty per cent in working hours. In other words, it called for a forty-four-hour week, a minimum wage of eleven dollars a week in the

North, ten in the South, and acknowledgment of the right of employees to engage in collective bargaining. The public hearing on the code submitted by the committee, held shortly after submission, was described by a reporter for *The Chicago Tribune* as giving "a sense of an impending great economic drama." Immediately William Green, president of the American Federation of Labor, demanded a thirty-hour week and a minimum wage of fourteen dollars. The total length of time machines might be operated in a single week became an immediate issue. On top of that, a plea was made that the industry should agree to the abolition of child labor. There were employers who added to the excitement by saying that the minimum wage rates were too low. Other employers admitted that the cotton industry's previous attempts to govern itself had been a dismal failure, and that the industry seemed incapable of dealing alone with its many crucial problems.

By July 1 a somewhat modified document had been agreed upon as a result of the hearings and discussion with the Recovery Administration. For example, General Johnson bluntly expressed the opinion that a ban on child labor would be a good feature of the code. At first the representatives of the manufacturers were inclined to say that the minimum wages proposed would automatically put an end to child labor. But that night the committee of the industry held a special meeting. The next day one of their number announced: "Our industry believes that it would be helpful to the broad movement to put an express provision in the cotton textile code that the employment of minors under sixteen years of age be not permitted during the emergency." This was greeted by loud cheers by child labor abolitionists the country over. If a start could be

made on textiles, might not similar concessions be made by other industries which exploited the labor of children? Further, the text of the code as revised and presented on July 1 called for minimum wage rates of twelve dollars a week in the South, and thirteen in the North for forty hours of work. This was reported to be an increase of thirty per cent in wages, a decrease of twenty-five per cent in hours. Machinery might be operated only for a maximum of eighty hours a week. Exceptions from the minimum wage rates were made for apprentices during six weeks of learning; also for "cleaners and outside employees." Manufacturers agreed to make systematic reports on wages, hours of labor, volume of machinery in operation, *etc.* Early in July the cotton textile code was submitted to President Roosevelt. On July 10 he accepted it with conditions later mentioned, and put it into effect for a trial period of four months beginning July 17.

President Roosevelt's short public statement on the subject was as follows:

"I have just approved the cotton textile code, subject to certain modifying conditions, clarifying, but not greatly affecting the proposals as submitted. Many significant circumstances attend this result. Child labor in this industry is here abolished. After years of fruitless efforts and discussions, this ancient atrocity went out in a day, because this law permits employers to do by agreement that which none of them could do separately and live in competition.

"In the eyes of the whole public there was a great conference among the very leaders of our industry, labor and social service, presided over by the government. It considered the most controverted questions in the whole economic problem—wages and hours of

labor—and it brought that question to a definite conclusion. It dealt with facts and facts only. There was not one word of accusation. And most remarkable of all, it arrives at a solution which has the unanimous approval of these conferring leaders on all three sides of the question at issue. I know of nothing further that could have been done. I can think of no greater achievement of coöperation, mutual understanding, and good will. It would be unfair to omit a word of commendation of this great industry. It has proved itself the leader of a new thing in economics and government. That took faith and courage and patriotism of the highest order. They have their reward in the results they have achieved and the example they have given."

The code was accepted by the President, however, with thirteen "interpretations and conditions." A committee of the industry must submit by January 1, 1934, a plan looking toward employee home ownership in the textile villages of the South. Office employees must be included within the benefits. Persons being paid more than the minimum rates must have their wages maintained and adjustments must be studied by a committee of the industry. A schedule of minimum wage rates for "cleaners and outside workers," omitted from the code, must be ready by January 1, 1934. Minimum wage rates must be maintained, whether payment is for time- or piece-work. The minority of the industry, not represented in making the code, might have a hearing and suggest modifications. The "stretch-out," a device whereby the number of machines attended by one operator is increased more rapidly than his pay, must be studied immediately by a special committee of experts and a decision made later. On July 16 the President by executive order made the cotton textile

industry's rules about wages, hours of labor and hours for machinery, applicable to the rayon, cotton-thread, silk, and "throwing" or thread twisting industries. On July 17 almost 700,000 workers began to operate under the terms of these codes. Much ado was made about an unlooked for by-product. Here and there were plants, which had operated machinery 120 hours a week, that had to lay off workers when the rule came to use machinery only eighty hours a week.

Codes—Snags—Pineapples

For several weeks after the acceptance of the textile code there was a lull. *Time* carried a headline: "One month, one code." There was much evidence that business was holding back, in some instances "on advice of counsel." Large industries were literally fighting NRA. A soft coal operator came to Washington admitting he would coöperate if he had to, but adding he would rather die than do so. But there was also much activity. It took time to write constitutions for industries. One report had it that some five hundred trade associations had shown signs of life and effective constitution making. One day in June nine associations met in Chicago, which was a favorite meeting place because of the Century of Progress Exposition. One day in July, seventeen groups met in New York. Not only the big ten, but also the representatives of the Cup and Container Institute, the Power Piping Society, the Clay Soil Pipe Makers, the manufacturers of equipment for the beauty industry, the National Pretzel Manufacturers' Association, and a dress suit rental association, took off their coats and wrote codes. Some trades and industries without their own associations quickly organized them. One of these was the Per-

fumery and Cosmetics Institute, "organized to operate under the National Industrial Recovery Act." The Rubber Manufacturers' Association engaged Newton D. Baker to work out an operating plan. The retail grocers, meeting at Atlantic City, seemed surprised that a code could be adopted so quickly. One of their number said it was "simply something to bargain about with the government."

Around July 20 it was raining codes, and "six ring" hearings got to be the order. The small trades were still not being called for. Lumber, oil, steel, coal, automobiles seemed to be NRA's main concern. "Pineapples" was the term Johnson applied to the "thorny" problems of the NRA. One of the greatest of these was the time element. The NRA staff was soon swamped. It took time, for example, to learn how to prepare and negotiate in order to conduct a hearing on a code of fair competition. Another question was the extent of authority over intra-state commerce. The Recovery Administration decided that it had authority to deal with intra-state commerce whenever that "affects" inter-state commerce. The Blue Eagle cannot see state lines, General Johnson has said. On the classic conflict of capital *vs.* labor, he once said it had obligations to see that the rights of both organized and unorganized workers were protected, but NRA ran into much delay and controversy over collective bargaining. Another chief worry was the rapid pace of industrial production as contrasted with smaller advances in payrolls and the number of persons reemployed. General Johnson said frankly that another collapse was in prospect unless purchasing power was boosted more rapidly. There was evidence that the rapid strides of industry were taken in order to get a

certain volume of production out of the way before the codes of fair competition became effective.

Large sections of industry were thus "trying to beat the gun." These threatened to scuttle the recovery program. Finally there arose problems of coördination between the National Recovery Administration and the Emergency Agricultural Adjustment Administration. (The latter will be discussed in the next chapter.) NRA's road was "getting rockier and rockier." Speed on codemaking was the vital thing. The process plainly could not cover the nation's main industries by September 1—the goal once set. Then the Administration boldly played a high trump card, in the form of the blanket code, in order to cope with the New Deal's first major crisis. It was daring to attempt so big a campaign in the dead of summer. But NRA apparently did not fear the dullness of the "dog days."

"To Every Employer"

As a device to speed up the spread of purchasing power through numerous wage increases, and thus to enable commodities rising in price to be consumed, the voluntary "blanket code" came into the plan. In the early stages of discussion, it seems plain that the President's numerous administrators and advisors were divided about this code. There were those who did not think it was needed, those who doubted the wisdom of a voluntary effort, and those who did not relish another campaign of the type of the Liberty Loan drives.

But the decision was made to ask every industrial employer of more than two persons to enter into an agreement directly with the President, to be effective from August 1 to December 31, 1933, or until the trade association codes could be arranged. It was openly an

appeal to "opinion and conscience." On July 27, postmasters began delivering fairly simple and short forms to five million employers. Five hundred "lieutenants" of the President were chosen to direct a highly intensified campaign. Salesmen's associations promised to help sell the idea. Many patriotic and civic organizations coöperated. Ten thousand local chambers of commerce were appealed to. Certain church organizations promised to assist informally. Their officers were surprised, however, to read a news report quoting General Johnson as saying: "We already have the churches and fraternal societies lined up." It was a resort to mass attack, a try at the old war-time drive. The names of coöperating employers were posted at post-offices. Consumers were given insignia to display. Employers were awarded posters for their windows. The badge was a bright blue eagle surrounded by NRA and U. S., with the slogan below "We Do Our Part." The pressure of opinion, it was hoped, would bring the reluctant into line. The goal was apparently to enlist the large majority of the nation's employers.

The message the President sent to every employer was simply as follows:

"1. This agreement is part of a nation-wide plan to raise wages, create employment, and thus increase purchasing power and restore business. That plan depends wholly on united action by all employers. For this reason I ask you, as an employer, to do your part by signing.

"2. If it turns out that the general agreement bears unfairly on any group of employers they can have that straightened out by presenting promptly their proposed code of fair competition."

Every coöperating employer was required to state the number of his employes when signing and to agree

not to employ any person under sixteen years of age. (Non-manufacturing industries might employ persons between fourteen and sixteen years of age not to exceed three hours a day between 7 A. M. and 7 P. M.) Other provisions were: a thirty-five hour week for industrial workers, a forty-hour week for office or clerical workers; a minimum wage for industrial workers of forty cents an hour, whether for time- or piece-work (unless the prevailing rate was less on July 15, 1929, but in no case less than thirty cents an hour); minimum wages for "white-collar" workers ranging from fourteen dollars a week in places of 2,500 to 250,000 population, according to the 1930 census, to fifteen dollars in places of over 500,000 population; in places of less than 2,500 population wage increases of at least twenty per cent were to be made but wages in excess of twelve dollars weekly were not required; maximum hours fixed did not apply to professional persons receiving over thirty-five dollars a week.

President Roosevelt made his ablest defense of the New Deal when he asked for immediate responses to the blanket code over a national radio network on July 24. It was a clear "definition of the situation" to date, combined with a call to action and coöperation:

"All of the proposals and all of the legislation since the Fourth Day of March have not been just a collection of haphazard schemes, but rather the orderly component parts of a connected whole. . . . We have kept our credit good. We have built a granite foundation in a period of confusion. It is the basis of the whole recovery plan."

Other "foundation stones" were the appropriation for relief, the Civilian Conservation Corps, the public works program, and the refinancing of home owners

and farmers in distress. The banking situation he pronounced "much better than we had expected three months ago."

"Now I come to the links which will build us a more lasting prosperity . . . the Farm and the Industrial Recovery Acts. . . . That brings me to the final step—bringing back industry along sound lines. . . . We can make possible by democratic self-discipline in industry general increases in wages and shortening of hours sufficient to enable industry to pay its own workers enough to let those workers buy and use the things that their labor produces. This can be done only if we permit and encourage coöperative action in industry. . . . If all employers in each competitive group agree to pay their workers the same wages—reasonable wages—and require the same hours—reasonable hours—then higher wages and shorter hours will hurt no employer. . . . That is the simple idea which is the very heart of the Industrial Recovery Act. . . . It goes back to the basic idea of society and of the nation itself that people acting in a group can accomplish things which no individual acting alone could even hope to bring about. Here is an example. In the cotton textile code and in other agreements already signed, child labor has been abolished. That makes me personally happier than any other one thing with which I have been connected since I came to Washington. . . .

"We are not going through another winter like the last. . . . We cannot ask America to continue to face such needless hardships. . . . It is time for courageous action. . . . The proposition is simply this: If all employers will act together to shorten hours and raise wages, we can put people back to work. . . . We have sent out to all employers an agreement which

is the result of weeks of consultation. The agreement checks against the voluntary codes of nearly all the large industries which have already been submitted. . . . Naturally, it takes a good deal of organizing and a great many hearings and many months to get these codes perfected and signed, and we cannot wait for all of them to go through. The blanket agreements, however, which I am sending to every employer, will start the wheels turning now, and not six months from now.

"I am now asking the coöperation that comes from opinion and from conscience. These are the only instruments we shall use in this great summer offensive against unemployment. But we shall use them to the limit to protect the willing from the laggard and to make the plan succeed. . . . If I am asked whether the American people will pull themselves out of this depression, I answer, 'They will if they want to.' . . . I have no faith in curealls, but I believe that we can greatly influence economic forces. . . . That is why I am asking the employers of the nation to sign this common covenant with me, to sign it in the name of patriotism and humanity. That is why I am asking the workers to go along with us in a spirit of understanding and helpfulness."

NRA Drives On

Amid controversies over labor policies, price fixing, the status of consumers, NRA drove on. At times the publicity became chaotic, as between permanent codes, temporary codes, blanket codes, and modified blanket codes. At times, too, the President vigorously intervened. One of the numerous rumors from Washington has it that the President said to coal operators whom he called in: "You do not appear to realize that

we are living in a new age, that the government is going to see this thing through, and that coöperation will be had, willing or unwilling." Another was to the effect that the President told prominent steel men that, if their code was not forthcoming, he would tell the country in a radio broadcast about their unwillingness to coöperate. The sequel was that the steel code appeared within a few days. Widespread strikes occurred, some of them aimed at forcing employers to sign the codes.

The first trade association codes which the President had duly accepted for various periods of time were as follows:*

Industry	Maximum Hours	Minimum Wages	Limits to Production	Prohibits Selling Below Cost	Other Important Features
Cotton Textile	40	$12 South $13 North (a week)	80 machine hours weekly	Yes	Controls "stretch-out"; establishes industrial relations boards.
Ship Building and Repairing	36	$0.35 South $0.45 North (an hour)		Yes	Rebates, refunds unfair; 32 hr. week on gov't work; arbitration of contracts.
Electrical Manufacturing	36	$0.40 an hour		Yes	Uniform accounting methods.
Coats and Suits	35	$14 a week		Yes	NRA on garments; eliminate sweatshop; unemployment insurance fund.
Wool Textile	40	$13 South $14 North (a week)	80 machine hours weekly	No	Limits stretch-out; periodical reports on production, raw materials.
Corset and Brassiere	40	$14 a week		Yes	Establishes a code authority; standard cost accounting; NRA label.

* From *The Business Week* for August 26.

INDUSTRY	Maxi-mum Hours	Minimum Wages	Limits to Production	Prohibits Selling Below Cost	Other Important Features
Lace	40	$13 a week	Controls new machinery	Yes	Reports on employment, payroll, machine hours; uniform accounting.
Legitimate Theater	40	$25 Actors $30 Chorus (a week)		No	Higher salaries if box office prices permit; a code committee.
Photographic Material	40	$14 a week		No	Optional reports on employment and payrolls; a code committee.
Fishing Tackle	40	$14 a week		Yes	Uniform accounting; a code committee.
Steel	40	$0.25 to $0.40 (an hour)	Prohibits certain new capacity	Yes	Establishes a code authority; specific reports; unfair practices are enumerated.
Lumber	40–48	$0.23 to $0.45 (an hour)	Yes	Yes	Establishes a code authority; prescribes rules of fair practice.
Oil	40–48	$0.45 to $0.52 (an hour)	Yes		Price control by the President for 90-day trial; development of new fields only with the President's approval.

Early in September the results of code-making were tabulated by NRA as follows:

Permanent codes approved	19
Modified President's agreements approved for trades	240
Future hearings on permanent codes arranged	20
Number of workers re-employed (estimated)	2,000,000
Number of workers under NRA codes (estimated)	10,000,000

The number of workers under codes was estimated to be about one-fourth of the total. Codes from about 600 out of the 7,000 trade associations had been received, and it was announced that mere tabulation was becoming a problem.

The code of the American Iron and Steel Institute

was agreed to by companies representing ninety per cent of the nation's ingot capacity. The steel code was most comprehensive, differing markedly, for example, from that for cotton textiles. It provided the machinery for self-government within the industry. It named unfair practices, and delegated authority to deal with the enforcement of fair practices. One of the big issues was over "company unions," through which the steel industry hoped to handle labor relations. There was much hammering of tables over the labor provisions of the steel code, but the leaders of the Institute withdrew the controversial section on the open shop. Steel prices are to be determined by regions, dropping the historic "Pittsburgh plus" basis for reckoning. The code accepted was in most respects what the industry had submitted, but the hearings were lively.

Oil was a battleground as usual. The large companies and the small independents continued to be at loggerheads. But the real issue was over attempts to establish instruments of price control. These disagreements continued throughout the hearings, and the code was finally hammered out by the numerous blows exchanged within the industry and between the industry and NRA. There was a group which held that if production control was effectively established, price regulation would not be necessary. At the Chicago meeting where the code was drawn, however, those who wanted the fixing of both maximum and minimum price for motor fuel won the day. Decision was finally reached by NRA, after much controversy, to authorize price-fixing. The President was given discretionary power for a period of ninety days to establish a basic price for gasoline. When this is established, it becomes an "unfair practice" to buy, sell, exchange, or otherwise

dispose of gasoline at a lower price. The prevailing price of crude oil will be determined by a formula which sets the value of a barrel of crude at eighteen and one-half times the cost of one gallon of gasoline at the refinery. The President may set a maximum as well as a minimum price. The oil code, observed *The New York Times* editorially, "contains material for an experiment to be watched with interest." The President appointed Secretary Ickes administrator of the oil code, and appointed a committee of fifteen for "planning and coördinating." Three of the fifteen represent NRA; the others, the oil industry. Those favoring price-fixing are in a majority. It has been determined to try state production quotas as a first step, to learn the effects upon price-stability.

The automobile code excited unusual public interest because a headliner, Henry Ford, or technically the Ford Motor Company, had never joined a trade association and continued to be a "lone wolf" throughout the code-making process and the hearings; and also because the industry was the first to write into a code that was accepted a definition of employers' rights to hire, fire, or advance employees on the basis of merit. The famous Section 7A of Title I of the NRA act, on the rights of labor to organize and bargain collectively was agreed to, but the following was added: "Without in any way attempting to qualify or modify by interpretation the . . . requirements of the National Recovery Act, employers in this industry may exercise their right to select, retain, or advance employees on the basis of individual merit, without regard to their membership or non-membership in any organization." The status of the Ford Motor Company remained a mystery for a long time. If the company paid higher

wages than the code required, and worked its employees shorter hours, would it have the right to the blue eagle? No, General Johnson replied to that question, not unless it signed a certificate of compliance with the code. The President had the power to negotiate a separate code with a section of an industry, but General Johnson said at another time that this would not be done. The General also said he expected the public to have something to say to the Ford Motor Company when it came to buying cars. It should be noted that, according to the law, the code became binding for the Ford Motor Company, which became subject to the penalties of the law for violations. If the code was conformed to but not signed, no penalty was attached. The code went into effect September 5, and provided for a maximum average work week of thirty-five hours, with an excess of three per cent permitted during rush periods, and hourly wage rates varying from forty cents in cities having less than 250,000 population to forty-three cents in cities of 500,000 and over. White-collar employees were included, with minimum wage rates of fourteen to fifteen dollars weekly, according to the size of the city.

Conflicts Over Trade Unionism

According to both official and unofficial reports, organized labor was making hay while the sun shone. Organizer after organizer reported widespread responses. Many who had let their union memberships lapse were reinstated. New members flocked into many trades unions. Certain provisions in the NRA act, previously referred to, struck a responsive chord in the heart of many a workingman. The officers of the American Federation of Labor, which recently had

reported a total membership of 2,532,261, considerably less than the peak of 4,078,740 in 1920, actually expected that the movement under way might carry membership figures to the previous high. It was said by William Green that about 1,000,000 new members had been received by early fall.

Numerous strikes occurred, including a "man-sized" one in the coal industry, and several widespread ones in textiles. The coal strike was called off at the request of President Roosevelt, after General Johnson had done some hurly-burly mediation, and after more thorough mediation was promised later by the President. Thereupon the President appealed for a labor truce, and appointed a National Board of Arbitration, with Senator Robert F. Wagner as chairman. The Board soon had work to do. Strikes are usually more numerous on a recovery movement than during a drastic deflation. In Reading, Pennsylvania, a "plebiscite," conducted to determine the attitude of the workers in forty-five hosiery factories toward company or trade unions, resulted in a preference for the trade union by a popular vote of 10,296 to 3,786. Following much controversy over labor provisions in the codes, Messrs. Johnson and Richberg issued a joint statement holding that a declaration to follow an open shop policy might not be included in any code of fair competition.

Nevertheless, labor leaders were fearful over the wording of the clause in the automobile code, believing it would be a wedge to oppose unionization, or that interpretations would be made by employers which will nullify that section of the NRA act which is regarded as a charter of liberties. Mark Sullivan wrote in the *New York Herald Tribune* during the heat of the controversy: "It [the NRA act] is a law written in the

spirit of walking a tight rope." There are those in the NRA, he thought, who want to walk the tight rope as between company or trade unions, but there are others who regard "NRA as a permanent charter for labor." . . . There are other important issues, he goes on to point out: "Whether NRA shall be emergency or permanent;" over "the advisability of boycotts of non-conformers;" over "whether to have price-fixing."

One of the most important concerns over labor policy arose from evidence that Negro labor was being displaced by white labor under the codes, because employers were opposed to paying the minimum rates to Negroes. In *Opportunity,* the journal of the Urban League, great fear is expressed in regard to this tendency. *The Virginia-Pilot* of Norfolk tells of a restaurant which discharged all Negro employees when it signed the code, and writes an editorial including the following: "It would be a grim and tragic commentary on the national recovery if a business and industrial regimentation directed to lifting people out of depression should operate to plunge the most depressed of them in a worse depression still."

Is the Consumer Forgotten?

As before noted, there is a Consumers' Advisory Board of the NRA. In resigning from membership in it, Professor William F. Ogburn of the University of Chicago aroused public interest in the unorganized consumers' stakes in the NRA development, by writing a memorandum to General Johnson which was widely published:

"The consumers' main interest is in prices. . . . The consumers will lose unless indices of prices and purchasing power are developed. . . ." They "will not

be protected unless the administrative provisions of the codes are carefully watched. . . . In order to administer the codes without injuring the consumer, a very full reporting service needs to be provided for. . . . Such provisions are missing from many of the codes. . . . How can the planning called for by the New Deal be done without provision for such data? . . . Standards of quality, the second great interest of consumers, should be developed. . . ."

A week after Professor Ogburn's resignation, the Advisory Board of NRA (mainly cabinet members) decided to ask all industries operating under the codes to submit information regarding recent increases in prices of products. In addition, it decided that all codes to be submitted should call for the submission of such data regularly. Mrs. Charles C. Rumsey, chairman of the National Consumers' Advisory Board, has announced a national project to organize consumers into local councils.

Attempts to Appraise Results

Too early, as usual, attempts are being made to appraise results of so extensive an experiment in industrial planning as is being tried through NRA. Official estimates said that forty per cent of the nation's 5,000,000 industrial employers had signed the blanket agreement by September 15, and that signatures were being received at the rate of 1,000,000 a month. Some communities did not get under way until September. The drive was being intensified and the permanent codes were being called for. It was thought by some high in the councils of the NRA that nearly all of the nation's industrial workers could be covered by 300 codes. While General Johnson said the NRA was a

great success, *The New Republic* was ready to say as early as September 6: "The industrial aspect of President Roosevelt's Recovery Program, as it stands today, is a failure," giving as the main reason that employers had not been sufficiently coöperative, not willing to make "voluntary sacrifices," and adding that public works must come to the rescue.

There was much testimony regarding evasion of signed or adopted codes, ranging from those who said that the NRA would soon be no more observed than the Volstead Act had been, to the specific report of a personal representative of William Green, president of the American Federation of Labor, citing six hundred specific violations of the newly adopted cotton textile code, and adding that no manufacturer he had investigated was complying with the code. Mr. Green also said that reductions in working hours were not great enough. Even if 2,000,000 industrial workers had been re-employed by September, at least 11,000,000 more were still idle, he said. General Johnson admitted that hours of work might have to be sharply reduced. Numerous attempts by stores to close during the lunch hour rather than take on extra employees were reported. (Hours for stores and shops were fixed at a higher point than those for industries, in order to have them open when industrial workers have leisure.)

Complaints mounted that banks would not loan to code signers—would not take a risk on the blue eagle's success. No less a person than General Johnson criticized the banks in a broadside. He appealed to them to become "blue eagle institutions." President Roosevelt then directed the RFC to find the ways and means of making more industrial loans. The RFC responded with a promise to support mortgage insti-

tutions which might be set up locally, and to make loans against the "slow assets" of industrialists which the banks would not accept as collateral. There were obviously many employers who could not raise wages if they could not borrow the money to do so. When they borrowed the money, it may be noted, they counted on repaying their loans with increased business, either in the form of higher prices or greater volume.

Both *The Business Week* and Dun and Bradstreet saw evidence of expansion of consumer-buying. The Guaranty Trust Company, in its September survey, saw "gains in the face of NRA problems," while the National City Bank in its bulletin for the same month said the crucial period was ahead. In the near future, it thought, "the permanence of the improvement thus far achieved will be put to the test." Everything depended, it was alleged, upon whether buying power in the form of increased wages could absorb goods being produced at higher cost.

The Works Program

As administrator of Title II of the National Industrial Recovery Act—that providing for a public works program—President Roosevelt appointed Harold L. Ickes, Secretary of the Interior, who also held his cabinet position. The Administrator of Public Works has an advisory board of cabinet officers and other high officials. Under Title II, the President is authorized to spend up to $3,300,000,000 for a program of public works to provide for direct re-employment of workers, and to provide a stimulus to industry by means of large governmental purchase of materials. The Emergency Administration of Public Works is authorized to construct and repair public highways, public buildings, and

"any publicly owned instrumentalities and facilities." It may carry on work for the conservation and development of natural resources, the prevention of soil erosion, purification of waters, the development of water power and flood control, the production and transmission of electrical energy, construction of low-cost housing, and slum clearance; and may make loans for the construction of hospitals (partly financed from public funds), reservoirs, and pumping stations. If it seems desirable to the President, naval vessels, aircraft, and other equipment may be built.

Grants made to states, municipalities, and other public bodies for construction work must not be in excess of thirty per cent of the cost of materials and labor used. So far as "practicable and feasible," workers on public projects shall not be employed more than thirty hours per week; and they "shall be paid just and reasonable wages," which "shall be sufficient to provide, for the hours of labor as limited, a standard of living in decency and comfort."

To carry out the purposes of the Act, $3,300,000,000 is appropriated, which is to be derived largely from a five per cent tax on stock dividends received by persons (the tax to be deducted by the payer corporation), an excise tax on corporations of one dollar for each thousand dollars of adjusted declared value of stock, and an excess profits tax on every corporation "equivalent to five per cent of such portion of its net income . . . as is in excess of twelve and one-half per cent of the adjusted declared value of its capital stock." The taxation necessary doubtless took this form instead of a general sales tax, which was under consideration, because of disclosures before the Senate Committee on Banking and Currency regarding the working of the

income tax law. Two provisions of the law were designed to correct certain abuses by requiring that "no part of any loss disallowed to a partnership as a deduction . . . shall be allowed as a deduction to a member of such partnership in computing net income," and that all income tax returns made under the Act "shall constitute public records and shall be open to public examination and inspection" under "rules and regulations promulgated by the President."

Quickly the President by an executive order authorized the expenditure of three-quarters of a billion dollars. The Administrator of Public Works was to distribute $400,000,000 to the states for roads which could be started immediately. The Post Office and Treasury Departments might claim $106,000,000 for post office, customs houses, *etc.* The navy received $9,000,000 for 290 new airplanes. The navy also received $238,000,000 in order to pay for four new "Treaty" cruisers, twenty destroyers, two airplane carriers, four submarines, and two gunboats for use on rivers. Some one interested in naval affairs remarked that, as compared with the previous Administration, the navy had a friend in the White House! But the army had apparently not so good a friend. When it asked for a big share of the public works money, Secretaries Ickes and Dern openly clashed.

Lists and outlines of projects being planned were sought from governors. Questions were raised as to whether all states would receive federal grants. Lewis Douglas, Director of the Budget, revealed that he had gone to the President, pleading that grants should be made only to states that were balancing their budgets, that had their houses in order, and that could really raise the sums of money needed to carry out a program.

Among the official family, opinion was also being expressed in favor of holding up the works program. The volume of industrial production was expanding, prices were rising. Was it wise to add so much to the public debt, when the pump of industry seemed already to be primed? In mid-July, however, the President decided to expend the entire sum appropriated. But by September 1 it could be said that very few workers had actually been employed on public works projects, all of which apparently took considerable time to start. If public work was to come to the rescue, how long would it take to be effective? On August 26 *The Business Week* said: "The situation is discouraging, and it may become tragic."

Meanwhile, progress was being made setting up the new United States Employment Service, the law for which passed both the Senate and the House without roll call, early in June. This was the well known Wagner bill, previously passed by both Houses but vetoed by President Hoover. Provision is made for a much more adequate federal system of employment exchanges than that which the previous Administration had set up. The Employment Service will be administered in the Department of Labor, and will coöperate with and coördinate state and local employment services. Where states have not established services, the national service will take steps to supply them. Appropriations of $1,500,000 for the first year and $4,000,000 thereafter were made. Three-fourths of the money is available to states, provided they match it; the remainder is for the national services.

The Buzz Over Planning

By fall the subject of industrial planning got into

ordinary conversation. Perhaps some of the outstanding remarks may help to give a clue to the social situation which obtained in the nation. At one point President Roosevelt said flatly: "No business which depends on paying less than living wages has any right to continue." Frances Perkins, Secretary of Labor, predicted that the Recovery Act would outlaw the sweatshop. She appealed successfully to striking hosiery workers in Philadelphia to return to work and await the effects of the new textile code. An official of a New York department store said the Recovery Act would mean the "end of a shoddy era." At a meeting of the National Catholic Alumni Federation, five speakers praised the Recovery Law. One of these, Dr. John A. Ryan, professor of political economy at the Catholic University, said:

"I think this Industrial Recovery Act will not work unless capital gets a smaller share of the industrial products than it has been getting. It is purely an arithmetical proposition. If labor is going to get a greater share, capital must be satisfied with less. This much is already clear: the Act itself and the provisions already made for its administration, and the spirit in which those provisions are being inaugurated, all point to a sustained effort to give labor as a whole a larger share of the products than it has been getting. Whether capital will be satisfied, I don't know. But if you ask me what we will have next if this doesn't work, I hesitate to think."

The New York Evening Post, a most conservative organ, applauded particularly the step taken to eliminate child labor and said: "There is one place in which children should not be first, and that place is in industry." The Labor Bureau, Inc., regarded the new Act

as giving workers the greatest opportunity in history to better their conditions, but added in a statement: "Industry, labor, and government must use the powers under this bill to bring about real recovery in order that it shall be of benefit. Are they capable of doing so? This is a grave question. It takes more than collective bargaining and minimum wages to make an effective industrial system. There must be the most intelligent kind of planning, of control of prices and profits, of efficiency, and of a score of other things if the job is to be done correctly." Henry I. Harriman, president of the Chamber of Commerce of the United States, in appraising the new plan wrote: "The act is, frankly, an experiment," but he envisioned "constructive coöperation in place of destructive competition." William Green, president of the American Federation of Labor, wrote that "labor is anxious to coöperate with industry and the government," and looked for "gains through group bargaining and elimination of abuses." The National Child Labor Committee asked that all codes provide for abolishing labor by persons under sixteen years of age, and recommended an eighteen-year limit for the coal, steel, lumber, and dry goods industries.

In response to the statement of Benjamin M. Anderson, Jr., economist of the Chase National Bank, that comprehensive planning is humanly impossible, that the only control adequate is that of the play of the markets, Walter Lippmann made a defense of the idea of planning:

"Deliberate direction has to be introduced. . . . Where and when direction and management are necessary, how they can be organized, how far they must be carried, how made responsible, how kept informed and

flexible—these are the problems we shall be dealing with all the rest of our lives. Obviously, measures like the farm and the industrial bills are at best only rough and tentative experiments in dealing with some phases of a vast problem that no one as yet understands. There are, I know, some who object to the idea of experimenting with the solution of great problems. But their complaint on this score should be addressed to the universe to which man belongs, which has, and always has had, the unfortunate character of confronting men with problems, and of not being finished, perfect, or stable. . . . We have to carry on the business of modern civilization, a business which is necessarily vast and complex, and beyond human capacity. We have to attempt many things for which we are not really competent in the kind of world we live in."

But Roger W. Babson was warning that the "public works program and farm relief measures may open the way for the biggest graft scandal in the history of the United States and a reaction that is too ugly to contemplate. As honest and conscientious as the President is, it will be difficult for him to control the dispensing of huge sums without the political machine creeping in." Wilson Compton, president of the National Lumber Manufacturers, said: "The law is defective, and in part is vexatious and objectionable," but he saw "possibilities of good." Roland B. Woodward, vice-president of the Rochester Chamber of Commerce, observed: "The labor features can wreck the Act's administration if they are used to force unionism on industry. The minimum wage features can make its operation impossible unless applied with good sense and judgment." In order to keep the "Roosevelt policy

in check," *i. e.,* preventing it from going too far to the left, business men should throw themselves into the recovery program, advised Ralph West Robey, financial editor of *The New York Evening Post.* Good results would probably not come, insisted H. Parker Willis, former secretary of the Federal Reserve Board, writing in *The New York World Telegram.* The industrial planning program he called the "most doubtful of all 'New Deal' developments." Florian Znaniecki, the noted Polish sociologist, here from the University of Poznan, feared the program would result in "economic tyranny. . . . It may not result in the same forms as in Russia. It may be more like Italy."

A critical statement by John T. Flynn, a widely read financial writer with liberal interests, appeared in *Common Sense,* a journal advocating a new political party, for August. The trade associations were ruling NRA, he thought. Labor was not getting either a fair hearing or a fair deal. We were building up a "vicious guild system" to control production, whereas what we needed was expansion of consumption. Labor as a consumer was simply going to be gouged, he contended, and in the control of industry would "be admitted to a very small and unimportant part in the process."

In the September number of the same journal, Mary Van Kleeck, director of industrial studies of the Russell Sage Foundation, who resigned as a member of an advisory council of the Department of Labor, expressed disappointment over the way NRA had been administered. Trade associations had too much power, she argued. Labor had a decidedly secondary place in the process of code-making. "In this historic epoch, society's struggle to solve its problem of starving in the midst of plenty is identical with the struggle of all

workers and producers for full share in the products of industry."

Professor G. F. Doriot, of the Harvard Business School, said that the law was "ill-conceived," but must be accepted as a means of getting out of "a terrible mess," and that we had better tackle the task in earnest or we might be dealing with Huey Long instead of Franklin D. Roosevelt. Owen D. Young, speaking at Radcliffe's Commencement, remarked: "Business having failed to discipline itself, I see no escape from some direction and control" [by the government]. The real spokesman for rugged individualism perhaps was Robert A. Millikan, of the California Institute of Technology, speaking at Oberlin's Commencement: "The government should content itself in the field of industry with acting as a check to private industry's exploitation and greed." George W. Bolton, financial writer for *The New York Evening Post,* said that the "division of gains" as between capital and labor, will be the "crux of success of revival plans." The plans were so grandiose and radical, he wrote, that expressions of alarm were being heard on every hand. At the Harvard Business School, A. A. Berle of "the Brain Trust" made an interpretation, indicating that the New Deal was an experiment in public control over private transactions. We had chosen to leave business in private hands, but it could remain there only if business demonstrated that it had sufficient public responsibility.

A review of representative newspapers, and labor, farm, trade and religious journals, made it evident that there was no consensus. We were having our first extensive discussion of industrial planning, and the confusion was probably no more than was to be expected.

CHAPTER V

UNTROD PATHS FOR FARMING

An unprecedented condition calls for the trial of new means to rescue agriculture.—*Franklin D. Roosevelt.*

The carload of flour being shipped from a mill in Buffalo to a bakery at Erie, the truckload of cotton crossing the Alabama line bound for market at Atlanta, the trainload of hogs on the bridge high above the Mississippi going into Chicago—these have all been declared by Congress to be "affected with a national public interest."

The men from the South and West who gathered in Congress after the Fourth of March, 1933, were straining to tackle effective farm relief. For his Secretary of Agriculture, President Roosevelt had appointed Henry A. Wallace of Iowa, editor of *Wallaces' Farmer and Iowa Homestead,* whose father, Henry C. Wallace, had been Secretary of Agriculture under President Harding, whose grandfather, "Uncle Henry" Wallace, had been a member of Theodore Roosevelt's Commission on Country Life. He was the third of a line of editors of farm papers. Mr. Wallace had been a Progressive Republican, and a farm relief enthusiast.

Making a Plan

Even during the banking crisis, the new Secretary and the Assistant Secretary, Rexford G. Tugwell of Columbia University, a member of "the Brain Trust," called a conference of agricultural leaders in Washington, asking them to get their heads together and specify the ways and means of farm relief that would bring results. In the heat and hurry of those conferences, influenced by the psychology of crisis which then gripped Washington, the main parts of the plan even-

tually adopted were forged. The view which prevailed at the conferences was that, since Congress had given unusual powers to the Executive to deal with banking, why should not extraordinary powers be given for a temporary period to the Secretary of Agriculture to enable him to grapple with the farm deflation? Furthermore, time was to an unusual degree the essence of the problem. Planting was imminent. If anything was to be done about the crops of 1933, it would have to be done posthaste. As early as March 16 a bill was ready, giving the Secretary of Agriculture power to use three specific methods of crop restriction and price lifting. President Roosevelt summed up the situation in a very short message as follows:

"At the same time that you and I are joining in emergency action to bring order to our banks and to make our regular federal expenditures balance our income, I deem it of equal importance to take other and simultaneous steps without waiting for a later meeting of the Congress. One of these is of definite, constructive importance to our economic recovery. It relates to agriculture and seeks to increase the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities; and at the same time greatly to relieve the pressure of farm mortgages and to increase the asset value of farm loans made by our banking institutions.

"Deep study and the joint council of many points of view have produced a measure which offers great promise of good results. . . . I tell you frankly that it is a new and untrod path. . . . If a fair administrative trial of it is made and it does not produce the hoped for results I shall be the first to acknowledge it and advise you. The proposed legislation is

necessary now for the simple reason that the spring crops will soon be planted and, if we wait for another month or six weeks, the effect on the prices of this year's crops will be wholly lost. Furthermore, by action at this time, the United States will be in a better position to discuss problems affecting world crop surpluses at the proposed economic conference."

The next day leaders of seven farm organizations, still assembled at Washington, sent out a short statement saying: "Delay will be fatal." But the Senate decided to hold hearings, and soon there was a tangle over an amendment to guarantee farmers the cost of production. It was pushed by the Farmers' Educational and Coöperative Union, the only radical farmers' organization of any size in the country, but opposed by Secretary Wallace. Behind his persistence in refusing to sanction the proposal was his knowledge that costs of production among farmers vary greatly, even among those of the same township. *Whose* cost of production should be guaranteed—those whose cost was low, high, or average? Debate dragged on. The cost of production feature was eliminated. The Farmers' Union started fighting the Administration. The Grange, the Farm Bureau, and a number of others stood by. Almost two months elapsed before the President approved a much enlarged Act on May 12. By then the now famous inflation rider, discussed before, and a measure authorizing the Farm Credit Administration to make a gigantic attempt to refinance about a fourth of the farm mortgage debt, had been added, and precious time had been lost.

What Should the Policy Be?

During that time, however, the nation had one of

its liveliest public discussions as to what its policy in relation to agriculture should be. Secretary Wallace led the way, going frequently to the radio, and making other addresses. He wanted standards of income in city and country alike to be raised. In answer to those who were shocked by proposals to restrict production when people were hungry and poorly clad, he said there was a close relation between the low prices for wheat in Nebraska and the large numbers of unemployed in New York and Chicago. What was being proposed was a great venture in social control, a try at economic planning for agriculture. If debts, or interest on debts were to be paid, farm prices must go up. The urban population would benefit by increased purchases of manufactured products. The values of investments in farm property would be increased if prices rose. The assets of banks and insurance companies would be enhanced in value. Protagonists of the measure pointed to the fact that in 1910 the total mortgage indebtedness of agriculture was equal to about one-half the annual gross cash income from farm production, but that in 1932 the total mortgage debt of agriculture was nearly twice the annual gross cash income. In addition, the floating or short-term debt of agriculture was about half the total of the mortgage debt, the obligations being $12,000,000,000 in all. Prior to the war, agriculture had had twenty per cent of the annual cash income of the people—after the war, only ten per cent. Farmers were being driven out of the house of their fathers!

Raymond A. Moley, not a partisan of agriculture, spoke a significant word in an interview which appeared during the debate over rural policy:

"The most important problem before the American

people is to raise the purchasing power of the farmer. This should be accomplished by making it possible for the farmer to get higher prices for his products, by relieving him of the burden of debt by some equitable means, and by reducing his taxes. Obviously the agricultural industry, being not only a business, but a way of life and an essential part of civilization, deserves special help in its present condition. Mr. Roosevelt has described the forms in which this help must be carried out. He has pointed out the increasing burden of the farmer. Agriculture will have to be provided with reasonable governmental guidance and assistance."

In opposition to the bill, it was held that practically dictatorial powers were being conferred on the Secretary of Agriculture, and that it was unfair to tax urban consumers generally at a time when their purchasing power had been seriously impaired. The plan was simply a disguised sales tax. It would be "sabotage" to pay a rental on idle lands when many were hungry. Effective administration would be costly and cumbersome. Evasion would be easy. Observance might not be widespread—remember prohibition! That the measure was obviously unconstitutional, that it was dangerous and revolutionary, that the means proposed could not achieve the ends stated, were other criticisms current. Those most outspoken against the bill were the processors, such as millers and packers, who were to pay the tax which would keep the machinery going.

Throughout the debate some lusty farm strikes continued. There was still watchful waiting on the prairies.

The Farm Relief Adopted

The bill adopted had three titles, dealing respectively with Agricultural Adjustment, Agricultural Credits,

and Monetary Control (the last already considered in Chapter III). Our concern in this chapter is with the first two. The purpose of the agricultural adjustment program is to restore farm prices to the level where they will have the relationship to prices of materials farmers use which obtained from 1909 to 1914. This period is sometimes referred to as the Golden Age of Agriculture, when farm purchasing power was judged by many economists to be "normal." For tobacco, the "base period" was to be from 1919-1929. The Secretary of Agriculture was authorized to set up an Emergency Agricultural Adjustment Administration (EAAA). He appointed George N. Peek, one of the originators of the famous McNary-Haugen (also called Mary Haugen at many a farm picnic) bill, and Charles J. Brand of the National Fertilizer Association as co-administrators. Mr. Peek and General Johnson had previously worked together, and close coöperation between the National Recovery Administration and the Emergency Agricultural Adjustment Administration seemed assured. The farm relief act might not be applied to all farm products, but only to cotton, wheat, corn, hogs, dairy products, tobacco, rice, and beet and cane sugar—perhaps to about 3,500,000 out of our 6,000,000 farm producers. Interstate transactions in these products were declared to be "affected with a national public interest." The whole plan rests upon the making of agreements in contractual form between the Secretary of Agriculture and the producers of the crop. Such agreements were to call for reductions in acreage in accordance with an allotment of the probable production needed for domestic consumption. Those who agreed to reduce production as required were to be rewarded by direct payments to be raised

by levying a tax on the processors of the products. The Secretary also was granted the power to license processors. Our country had come into a time when the federal government would go out and pay farmers a rental on land—if they would only let it remain idle, or at least not plant it in marketable crops! For cotton producers a special and technical method known as "cotton option" contracts might also be used. This simply meant that, instead of raising cotton on a portion of his land, a grower would get an option to buy cotton held over from previous crops and already stored. Products intended for unemployment relief were exempted from the processors' tax. In brief, the plan adopted called for the restoration of a better balance between agriculture and industry, but not for any fundamental changes in the distribution system.

Taking the First Steps

The Adjustment Administration first applied the Act to wheat, and then to cotton. The steps taken with these two crops may illustrate the process. On June 16 a three-year program of wheat adjustment was announced. Wheat producers were not asked for any restrictions of acreage until 1934 and 1935, and the maximum asked for was to be twenty per cent. For 1934, fifteen per cent was determined upon, after the international conference of wheat exporting nations come to an agreement. A processing tax of thirty cents a bushel of wheat, equivalent to about $1.38 a barrel of flour, was imposed, effective July 9. It was calculated to raise $150,000,000 for distribution to coöperating farm producers. Bread prices in cities immediately advanced. M. L. Wilson, Chief of the Wheat Production Section of the Emergency Agricultural Adjustment Section,

said: "The wheat program is patterned closely after the voluntary domestic allotment plan. . . . The problem is to lower production by making it worth while for the individual farmer to curtail acreage." Local groups or units of farmers were to be set up to make the necessary "allotments" of acreage on a county basis. The Act was to apply only in counties which normally produce over 100,000 bushels of wheat. Payments of two-thirds of the benefits were to be made to coöperating farmers on September 15, and the remainder on evidence that acreage had been adjusted.

Would growers coöperate, Secretary Wallace was asked? His reply was that thirty cents a bushel was "a nice piece of change." The active campaign of signing up farmers was postponed until fall, and by September was under way in forty states.

Speculators and nature brought on a wheat crisis late in July. There had been a heavy drought, resulting in forecasts of the shortest wheat crop in forty years. Wild speculation was carried on. Along with the stock market, prices of wheat crashed. To have carried out the usual rules on margin trading as provided in the Chicago Board of Trade, huge quantities of grain would have had to be dumped on the market. The grain exchange suspended trading for a few days; then, with the approval of the Secretary of Agriculture, it actually set a minimum price "until further notice," and decreed against rises in price of more than five cents a bushel of wheat on any single day. (These restrictions were later removed.)

The Land of Cotton

Much more spectacular and ambitious has been the cotton plan, calling for taking 10,000,000 acres, nor-

mally producing over 3,000,000 bales, out of 1933 production, and paying coöperating farmers over $100,000,000 for doing it. Personal visits by government agents and by voluntary coöperating committees were made to 2,000,000 growers of cotton. *The New York Times* pronounced that the plan "casts the government for a role it has never played before." A ten-day campaign was opened on June 24 by a personal appeal from President Roosevelt, which was to be put into the hands of every planter:

"The fate of any plan depends upon the support it is given by those who are asked to put it into operation. This program for the cotton producer essentially places the responsibility upon the individual farmer. He and he alone will, in the last analysis, determine whether it shall succeed. This plan offers the cotton producer a practical, definite means to put into immediate application the methods which Congress has prescribed to improve his situation. I have every confidence that the cotton producer will face the facts and coöperate fully in the reasonable and practicable plan that is proposed."

The best effort of the Department of Agriculture to simplify the proceeding was the following statement:

"Cotton producers will be asked to sign contracts offering to lease a definite amount of their cotton acreage to the Secretary of Agriculture. . . . If a sufficient number of offers have been received by the Secretary to justify an acreage reduction program, he will accept them. . . . The consideration offered the cotton producer for his land is contained in two alternative plans:

"(1) A cash payment in consideration of coöperation, based on the productivity of the land, and ranging from $6.00 per acre for land yielding on the average

around 100 pounds lint cotton per acre to $12.00 for land yielding on the average 275 pounds or more per acre, plus an option on government-held cotton in an amount equal to that which the producer agrees to retire from production, and at a price of 6c per pound.

"(2) A cash benefit without the 'cotton option,' the amount of such benefit on a per-acre basis, to range from $7.00 for land yielding from 100-124 pounds per acre to $20.00 for land yielding 275 pounds or more per acre.

"If a sufficient number of offers is received to insure effective reduction of production, and the Secretary announces his intention to pay benefits, a processing tax must be in effect as of the beginning of the marketing year, which for cotton is about August 1. The amount of the tax will be computed after a proclamation by the Secretary announcing his determination to pay benefits and under the law will be the difference between the current average farm price and the 'fair exchange value.' The current average farm price is to be determined from available statistics in the Department of Agriculture.

"The amount of acreage to be retired from production will be determined by the Secretary after the offers have been received. No definite amount of acreage is predetermined except to procure a sufficient amount of production to be retired as will effectively eliminate a substantial portion of this year's crop and reduce excessive supplies."

At the end of the ten-day campaign, various interpretations of the situation were offered. There were those who said victory was in sight, and those who said the campaign had failed. It appeared that 5,500,000 acres of the 10,000,000 thought necessary had been offered. Secretary Wallace then announced that the

time would be extended another week and went on a national radio hookup to read a letter addressed to him by President Roosevelt urging cutting the cotton crop as a "patriotic duty." Wrote the President:

"I want you to make it very clear that I attach the greatest possible importance to the cotton adjustment campaign. It is our first major attack on the agricultural depression. I know that for the past two weeks the representatives of the farm adjustment administration have been presenting to the 2,000,000 producers of cotton the hard facts of supply and demand, but the real question is, are the cotton growers ready to recognize these facts and seize their opportunity?

"I myself am one of those who as a planter of cotton has suffered from the absurdly low prices of the past few years. What I am concerned about, and what every other cotton grower ought to think about, is the price of cotton next year if cotton acreage is not reduced." There were two reasons why the President thought every cotton grower should coöperate. "The first is the patriotic duty of making the plan a success for the benefit of the whole country; and the second is the personal advantage to every cotton grower in helping as an individual to reduce an over-supply of cotton and thereby obtaining a better price for what he grows. The responsibility rests on the individual grower, and I believe that we can get substantial unity among our more than 2,000,000 cotton producers for this program of a planned and orderly harvest."

Secretary Wallace went on to remind planters that the surplus of cotton being carried over from previous years was large. True, commodity markets had been boiling—cotton had hit ten cents a pound. This was welcome news, but to maintain prices there must be

reduction of acreage, not an increase, as crop reports already indicated. It was next announced that a processing tax of four cents a pound would be levied in order to make the payments of benefits to coöperating growers, if and when the plan could be declared operative. Would the planters "come across" or "hang back"? *The New York Sun* observed editorially: "It is human nature for a grower to wish to get the benefit of any bounty that may be going and at the same time to raise all the cotton he can in anticipation of a better market. Yet unless growers can be induced to curtail production, the whole elaborate undertaking must fail."

It succeeded—over 10,000,000 acres were offered. Stalks capable of producing over 3,000,000 bales of cotton were to be destroyed, usually by "plowing under." Secretary Wallace congratulated the South upon its demonstration of willingness to coöperate in economic planning for agriculture. More ambitious plans for the crop year of 1934 were quickly got under way.

Implications of Adjustment Programs

Speaking at St. Paul about the wheat program, Secretary Wallace said:

"I am not here to boast about what has been done, for as yet we have done nothing substantial or abiding. We have merely designed a framework. The enduring structure is not yet visible. It will come into being when, as, and if the farmers of the country wish it to. It is the keynote of this Administration that we refuse to kid ourselves about what we have done or hope to do. Through the Farm Act we have unusual powers. But we face extraordinary problems, and they have been twelve years in the making. We cannot solve them

overnight, and we cannot solve them at all unless you and your neighbors pitch in and help."

In the dairy industry, where collapses of farm prices had brought disaster, "trade agreements" were being negotiated looking toward higher prices for farm producers. On July 13 a plan for licensing city milk dealers was announced, the first time the licensing power was to be invoked. (In August a trade agreement was upheld in a test case in the Supreme Court of the District of Columbia.)

George N. Peek announced what one reporter named "a broad policy on price-fixing." "Since we have authority under the law to sanction the fixing of minimum prices, it would naturally follow that a maximum could be fixed in the agreements beyond which the price could not go." When bread prices advanced, he warned that profiteering would be punished, and reminded the public that his administration had the power to license.

On July 9, Charles J. Brand announced: "The President has placed the food industries under the agricultural administration, except for the labor and wage provisions, which fall under the Industrial Recovery Act." At the same time twenty-nine executives of the food industry consented to become the Food Industries Advisory Board of the Emergency Agricultural Adjustment Administration.

Quotas for domestic and imported sugar were worked out. The meat packing industry submitted a trade agreement. A processing tax for tobacco was announced.

The Reconstruction Finance Corporation lent \$4,000,000 to finance Russian purchases of cotton, and lent another \$50,000,000 to China for three years to purchase cotton and wheat. After domestic adjust-

ment was achieved, said Secretary Wallace, international markets must again be opened up, and world trade barriers must be dealt with. He struggled with ways and means of levying a "hog-processing" tax, but said it would be highly complicated. He finally announced a plan with features he admitted he did not like. It called for the slaughter of 5,000,000 hogs, 4,000,000 of them light pigs, the remainder sows soon to farrow, and turning the meat over to relief agencies for the unemployed. A processing tax to yield over $50,000,000 was levied. At the Chicago Century of Progress Exposition, he said on announcing the program: "I am not worried about this emergency program. But I am terribly concerned lest the corn belt should fail to recognize how really dangerous this program can be unless it is tied up closely to a long-term program."

Meanwhile New York and New Jersey both enacted one form of farm relief within their borders. They set up temporary milk control boards, with power to fix prices for producers, distributors, and consumers. In a test case, the New York Court of Appeals, the highest tribunal, held that state's milk control law to be constitutional. Chief Justice Cuthbert W. Pound prepared the Court's opinion, which held that "the policy of non-interference with individual freedom must at times give way to the policy of compulsion for the general welfare. . . . It may be invoked when the Legislature is dealing with a paramount industry upon which the prosperity of the entire state in large measure depends."

Administering Credit

Soon after taking office, President Roosevelt by an executive order combined into the Farm Credit Admin-

istration (FCA) all of the government agencies with responsibility for agricultural credit. By this step, later approved by Congress, the Federal Farm Board, the Intermediate Credit Banks, the Federal Land Banks, the Regional Agricultural Credit Corporations, and the production loan agencies of the Department of Agriculture were all placed under the administration of Henry Morgenthau, Jr., publisher of *The American Agriculturist,* farmer near Hyde Park, graduate of Cornell Agricultural College, who was named as governor of the new administration. The plan is expected to make considerable savings in administrative expenses. This step meant abolition of the Federal Farm Board, established early in 1929, which was voted a revolving fund of $500,000,000 for the purpose of attempting to stabilize interstate and foreign commerce in agricultural commodities. On March 21 Mr. Morgenthau announced that the Federal Farm Board's losses were $360,000,000; and that the type of loans against stocks of commodities which had been made by the Board would be discontinued by the new Farm Credit Administration.

Later the Administration's program of refinancing a portion of the outstanding farm mortgage debt to the extent of about $2,000,000,000 was announced, and was incorporated in the Farm Relief Bill. This plan contemplates refinancing a portion of the farm mortgages *not* held by the Federal Land Banks and the local coöperative credit associations through which the Federal Land Banks operate. The total farm mortgage debt, as before noted, has been estimated to be about $8,000,000,000. Of this, roughly one-fourth is held by the Federal Land Banks and the Joint Stock Land banks, the latter being private institutions which have

received some supervision from the Federal Farm Loan Board. The Administration's program calls for refinancing of roughly one-third of the debt owned to private investors and numerous institutions, such as the insurance companies. The federal government will guarantee the payment of the interest at a low rate on new mortgages to be exchanged for those outstanding. It is apparently planned that in many instances the principal of the mortgage as well as the interest will be written down. It seems that both debtors and creditors would benefit by the transaction. Debtors would receive lower interest rates and in many instances a reduction of the principal of their indebtedness. Investors would receive lower interest rates but would have their income guaranteed by the United States Government. Presumably the plan could be put into effect to a considerable extent without raising new capital but solely by an exchange of securities.

As soon as the Farm Bill was passed, bands of appraisers from the Farm Credit Administration went to Wisconsin, selected as a test state, to refinance mortgages held by closed banks. A fund of $50,000,000 was made available by the Reconstruction Finance Corporation. Six weeks later the Farm Credit Administration announced it was "gratified with the results." The methods demonstrated would now be used in other states. On July 11 Mr. Morgenthau announced that all the Federal Land Banks would reduce by one per cent for five years interest rates on farm mortgages they held. This was a reduction of $11,000,000 a year.

Thus the Administration set out to work both for the raising of agricultural prices, and for reductions of interest and indebtedness.

CHAPTER VI

"LET THE SELLER ALSO BEWARE"

> This proposal adds to the ancient rule of *caveat emptor* the further doctrine: "Let the seller also beware."—*Franklin D. Roosevelt.*

No part of the New Deal has brought more revealing comments or more interesting headlines than the law providing "for federal supervision of traffic in investment securities in interstate commerce." In the urban centers, where the traffic in securities has been great, a few recent newspaper headlines tell a great story: "Securities law worries bankers." "Legal views fail to dispel fears of security dealers." "New federal restrictions held curtailing flotations of legitimate promotions."

The President himself again informed the public in his message of March 29 what the proposed law called for and why it was needed:

"In spite of many state statutes, the public in the past has sustained severe losses through practices neither ethical nor honest on the part of many persons and corporations selling securities. Of course, the federal government cannot and should not take any action which might be construed as approving or guaranteeing that newly issued securities are sound in the sense that their value will be maintained or that the properties which they represent will earn profit. There is, however, an obligation upon us to insist that every issue of new securities to be sold in interstate commerce shall be accompanied by full publicity and information, and that no essentially important element attending the issue shall be concealed from the buying public. . . .

"The purpose of the legislation I suggest is to pro-

tect the public with the least possible interference to honest business. This is but one step in our broad purpose of protecting investors and depositors. It should be followed by legislation relating to the better supervision of the purchase and sale of all property dealt in on exchanges, and by legislation to correct unethical and unsafe practices on the part of officers and directors of banks and other corporations. What we seek is a return to a clearer understanding of the ancient truth that those who manage banks, corporations, and other agencies handling or using other people's money are trustees acting for others."

The Act was signed May 27, went into operation July 7, and applied to all new securities sold to the public in interstate commerce after July 27.

A. A. Berle, Jr., made public in *The New York Times* some of the "low down" as to the legislative history of the Act:

"That the public demanded such an Act was only too obvious. That responsible bankers themselves felt this need was freely conceded. That the Act itself should conflict with an infinite number of private interests was a foregone conclusion. What had not been realized was that the investment banking community would decline openly and publicly to state its own ideas in the matter, but would prefer to develop the problem in private. In failing to come out publicly, the investment bankers missed a chance to make a real contribution. Plainly, they were in no position to expect an invitation to join in drafting. They could, however, have agreed upon a list of suggestions and made formal presentation of it. As this was not done there has been less publicity, although more actual discussion of this piece of legislation than the public yet knows."

Purpose and Method of the Law

The law is administered by the Federal Trade Commission, which has issued a set of rules interpreted later in this chapter. Control is to be exercised at the point of issue over flotations of securities. All issuers of new securities are "liable" if their statement making application for registration of a security is inaccurate, or if it does not contain an essential detail. The information required by the Federal Trade Commission about a proposed issue is largely that of accounting. It is said to be less detailed than that at present demanded by the New York Stock Exchange of applicants for listing new securities. Financial data about the corporation whose securities are to be sold must be given for the three-year period prior to registration; also data about the fees or commissions of the issuing house. All issues must be registered twenty days before they can actually be sold.

The fact that the Commission permits a security to be offered to the public is not to be construed as approval of it, or as a guarantee of its worth. The Commission has the power to issue a stop order to prohibit the sale of specific securities; it does not have the power to recommend a sale. Securities exempted from regulation include those issued by the federal, state, county, city and town governments; notes, drafts, and bills of exchange arising out of current transactions; securities issued by religious, educational, and charitable corporations, and building and loan associations; and securities issued by common carriers subject to the regulation of the Interstate Commerce Commission. Persons responsible in connection with issue of securities are subject to suit and to severe penalties for fraud and misrepresentation. The Commission may seek injunctions

against those who fail to live up to its regulations. A "Corporation of Foreign Security Holders," having six directors appointed by the Commission, is created by the Act. Its principal duty is to conserve and protect the rights of holders of foreign securities. Its expenses are met by a levy on the security holders of not more than one-fifth of one per cent of the face value of the securities entrusted to the Corporation.

A financial writer in *The Chicago Tribune* says that, from a legal point of view, "the most radical departure made by Congress in passing this Act is that it transfers the burden of proof from the buyer to the sellers and issuers of securities."

The Rules Issued

The specific rules to be followed were made public by the Federal Trade Commission with the following explanation: "In approving the rules the Commission had regard for the public interest and for the protection of investors, but endeavored to place no undue burden either upon the general business or upon honest and reputable investment dealers." All hearings held shall be public. On filing application for registration, an issuing house must pay a fee of one-hundredth of one per cent of the maximum price at which securities are offered for sale, but in no case less than twenty-five dollars. After registration is granted and a security offered to the public, the issuing house must file, within ten days after offering, a statement giving the actual price at which it was offered. "If there be a difference between such price and the proposed price set forth in the registration statement, a brief explanation of such difference shall be made." Additional and supplemental information must be filed from time to time "as the

Commission may require." The actual data to be used in the prospectus to be given to buyers must be filed with the Commission.

Registrations Filed

On the first day that registrations were received, the door-step of the Federal Trade Commission was crowded. Applications for at least fifty security issues were received. In the confusion, there were applicants who forgot to attach the required fee. The total value of the securities was estimated to be around $75,000,000, and the fees received were between $7,000 and $8,000. Most of the applications were from investment trusts. Two of the issues were for $10,000,000 each. The next day the names of thirty-six of the applicants wishing to sell securities valued up to $65,000,000 were published. One house stated on its application that it would receive a commission of nine and one-half per cent on the securities, another one of seven per cent. Registrations went on steadily thereafter, until their value totaled $185,000,000 in September. In August the Commission issued its first order to an investment house to stop selling securities because they had not been registered.

Some traders in securities soon endeavored to discover "detours" around the securities act. Corporations were said to be planning refinancing without offers to the public at all, and there were rumors of even more open ways of evasion. One partner in an investment house was quoted anonymously by *The New York Evening Post:* "It would be funny if we fellows who know the business can't outsmart a lot of hick senators." To which James McMullin, who conducts a column in *The Post* added: "Maybe. New Yorkers

who have had first-hand experience with the New Deal methods are not so sure." It is thought, however, that refunding offers made directly to known owners of a corporation's obligations will not be construed as a public offering of a security.

Comments and Predictions

The air was soon thick with opinions and speculations as to the probable effects of the law. Two are here selected for quotation. The counsel for the securities committee of the Investment Bankers' Association, Paul V. Keyser, offered the following just as the new law was being put into operation:

"The obligations which this Act undertakes to impose upon underwriters are very great, and it seems to me not unreasonable to expect that responsible private bankers may hesitate to accept the hazards of these obligations—hazards that by the greatest of care cannot definitely be determined in advance of the event. If the larger private bankers hesitate to accept the liabilities of acting as sponsoring underwriters, then the question occurs whether the issuing company can directly utilize the services of the smaller dealers of the country to distribute its securities to the public.

"Here again a serious problem occurs, since under the technical provisions of the Act each and every one of such dealers, even if acting simply on a commission basis, would individually become liable to all the obligations of an underwriter under this act. It may be doubted whether such dealers would be willing to pledge their individual fortunes to such an unknown liability. Under the new Glass Banking Act banks may no longer act as underwriters or distributers of such securities, and the question is still: How could the general busi-

ness of the country procure the necessary investment funds from the public? This question awaits an answer under this Act."

But Mr. Berle had a very different view:

"We must frankly recognize that the main problem has still to be tackled. Perforce, blue-sky regulation smacks of locking the door after the horse is gone. So long as the creation of corporations runs loose, securities will be a problem: the wrong kind of securities will be created, and there will be no adequate means of following them up. It is not generally realized that far more money has been lost through the manipulation of securities long since created than in new flotations; or that the corporation laws are so arranged that a security legitimate when floated may be made worthless or wholly changed in character by perfectly permissible legal moves shortly thereafter.

"All this spells a fundamental job to be done in corporation law. . . . We tend to forget that forming a corporation is not one of the rights of man but a privilege which should be granted only when there is some reasonable likelihood in statecraft and financial common sense that it will be a useful organism in the scheme of things. Hence it is probable that the Securities Act will be followed up in course of time by laws affecting the manipulation and change in character of securities after issue and by requirement of reasonable publicity of accounting, on the one hand; and, on the other, by a thorough-going study of incorporation laws in general, with a view to finding the answer to a problem which has beset American finance for many years."

Behind each of these points of view powerful social and economic forces are arrayed. Between them the lines are drawn for battle.

CHAPTER VII

EXPERIMENTATION CONTINUED

America is new. . . . It has the great potentialities of youth.—*Franklin D. Roosevelt.*

Homes, rails, relief, reforestation, and the Tennessee Valley Project (which includes Muscle Shoals), all come within the broad scope of the Administration's program. We review briefly what is contemplated, and what has thus far been accomplished.

The Civilian Conservation Corps

One of the first actions was to send 250,000 young men to the woods and to work on flood control projects. The idea grew out of the President's personal experience at Hyde Park, New York, and his policy as governor of New York. For, in addition to being a planter of cotton, the President has also been for a long time a forester and a "reforester" on his own farm. When governor of New York, he supported proposals to begin land surveys to determine what parts of the farm land could be more economically returned to forests. He sponsored an expansion of the State's time-honored policy of conservation. The President also held that conservation of natural resources was an established part of the national policy. It would provide useful employment outdoors for many who were idle.

The Act approved March 31 gave authority to the President for a period of two years to employ men on projects having to do with timber production on lands of the United States; the prevention of forest fires,

floods, and soil erosion; the control of plant pests and diseases; the repair of national parks, *etc.* The President has power to use workers on private lands, or on properties of states, counties, and municipalities, but only for purposes of coöperating with federal programs. No new appropriation was made, but $300,000,000 was transferred from unexpended balances for the new project. The President appointed Robert Fechner as Director of Emergency Conservation Work, and ordered that 250,000 persons be employed. The Labor Department had responsibility for selecting the men. The War Department trained and "conditioned" them (no military training was given) and had charge of discipline and sanitation in the camps. The United States Forest Service supervised the actual work on the projects. By June 1 almost 1,700 local camps had been approved, 713 on national forests, 69 on national parks, 374 on state lands, 348 on private lands, and 193 on Indian lands, military reservations, state parks, and other places.

There was lively recruiting for the Civilian Conservation Corps (CCC). Relief agencies coöperated readily. Members of the Corps were to receive thirty dollars a month, which would in large part be paid to dependents. (It also cost about twenty dollars additional per month to maintain a man in camp.) By June 30, 1,330 of the 1,700 approved camps had been established. The recruiting had been done strictly on schedule, and 25,000 extra men, bringing the total to 275,000, were to be enlisted. The mobilization was more rapid than that of the American army and navy combined during the World War. An average of 8,540 men a day had been "received, processed, and equipped." The total payroll in July was over $6,250,-

000. By September, 310,000 men had been enrolled. The total cost was $20,000,000 a month, and the enlistment of the Corps was extended until spring. Mr. Fechner expressed the hope that the Corps would be permanent. In a radio address, President Roosevelt hailed the Civilian Conservation Corps as the "vanguard of a new spirit," but there were peace advocates who saw it as a potential army.

Good news for the book trade was only one lively incident. The largest single order for books which had been seen for many a moon was placed by the government. It called for a total delivery of books valued at $70,000. There were sixty copies each of one thousand fiction titles, for sixty traveling libraries, and numerous works on trees, birds, flowers, forestry, and botany.

The neighbors of some of the members of the Corps were not highly pleased. For example, Portola, California, sent invitations to forest recruits in camps nearby for a dance. There were a number of additional young foresters, it was reported, who "crashed the gate," and still others who insisted on dancing on a highly polished floor with hob-nailed shoes. It appeared that all aspects of "community relations" had not been thought through.

A cause of embarrassment nearer headquarters was the high price paid for sanitary kits, at the very time when veterans' compensation was deeply cut. This news made Democrats high in the councils red behind the ears.

Federal Unemployment Relief

The Survey announced: "There's a new spirit in Washington—a resolution to get on with things that

will count. With a set-up of experienced men, a law giving it wide powers and a half billion dollars in its pocket, the Federal Relief Administration has set out on one of the greatest tasks of mass relief ever undertaken—to get relief through to all those helpless millions who need it, to make it decent, and to make it prompt. A social-minded president has put at the head of the Relief Administration a seasoned social worker with experience in state relief, given him advisors and assistants from his own profession—and a green light, 'Go!' "

In the words of experienced social workers, unemployment relief had been "pyramiding," or had been increasing in geometric progression. The longer the depression, the more rapid the rate at which the savings of the unemployed were exhausted. In 1932, for example, 120 cities spent for relief seventy-nine per cent more than in 1931. Unemployment relief reached its peak in the month of March, 1933. Expenditures of 985 agencies in 108 large cities reporting to the Children's Bureau were more than $40,000,000 that month alone. Private funds, which in late 1931 had been about thirty per cent of the total, had shrunk to less than ten per cent of the total. There was the usual decline in April, at a "seasonal" rate no more than in 1932. The decline continued throughout the summer, however, becoming by September more rapid than seasonal, according to official advices.

We had come to federal participation in relief by a slow and painful process. The controversy over federal responsibility really began at the time of the great drought of 1930, when President Hoover decided against a federal appropriation and in favor of a Red Cross Appeal. At one time he said that private charity

was "the American way" of handling relief. Neighbors must care for their neighbors. But his was the voice of a rugged individualist who did not seem to know that there was too much diversity in the United States to deal locally with a national disaster—that some of the local backs were weaker than others. Soon local backs started breaking and state relief came to the rescue, but only in a minority of the states. Perhaps the most adequate state program was in New York. When federal relief came it was an authorization to the Reconstruction Finance Corporation to "loan" $300,000,000 to the states. No sensible or informed person in Washington would admit that the loans were ever to be repaid. When the history of the great depression comes to be written, the mishandling of relief, the hand-to-mouth policies, the inhuman side of it all, will loom large and will be one of the dark spots of the era.

When the Roosevelt Administration came in, the $300,000,000 had nearly all been lent. Illinois had borrowed to the limit—and more. The President again drew on his experience as governor: the new federal law resembles in some respects the New York law. There was haggling in Congress over the discretionary powers to be given the proposed administrator of relief. The opposition came mainly from senators of the South, who did not want federal control over the methods of expenditures within the states. But their opposition was overridden. (The Democratic party leaders do not heed Southern opinion as they once did. They are bidding hard for Northern and Western support, and there are said to be six Northern cities in which Negro voters have the balance of power!)

The law, as passed May 12, directs the Reconstruc-

tion Finance Corporation to provide $500,000,000 for unemployment relief. The distribution of funds was taken from the Corporation and placed in the hands of a Federal Emergency Relief Administration (FERA), created by the Act. Of the total sum, $250,000,000 is to be distributed to states in grants up to one-third of the amount expended for relief by the states and their subdivisions. The remaining $250,000,000 is to be distributed among the states when the Emergency Relief Administrator finds that the combined moneys of a state available from all sources for relief fall below its needs as estimated by the Administrator. A significant provision of the law which has received but little notice is that authorizing the Administrator to make additional grants to states applying for them, in order "to aid needy persons who have no legal settlement in any one state or community, and to aid in assisting coöperative and self-help associations for the barter of goods and services." The total amount available to a state under these provisions shall not exceed fifteen per cent of the $500,000,000. Two other parts of the law are worth quoting: "The Administrator may under rules and regulations prescribed by the President assume control of administration in any state or states where, in his judgment, more effective coöperation between the states and federal authorities may thereby be secured in carrying out the purposes of this act. . . . The decision of the administrator as to the purpose of an expenditure shall be final."

Harry L. Hopkins of New York was appointed federal emergency relief administrator. He had been administrator of relief in New York and had had a long experience as executive of the state tuberculosis association. Among Mr. Hopkins' first acts have been

warnings to the states, first in general, later in specific terms, that they were "lying down." There were states which he did not name, that had not appropriated a penny for relief. At the National Conference of Social Work, Mr. Hopkins said bluntly that federal relief money was not to be used to subsidize employers who did not pay fair wages. In issuing rules governing the Relief Administration's activities he said that in the use of federal funds there must be no discrimination because of race, color, religion, lack of citizenship, political affiliation, or membership in any special group. After August 1, all federal money administered in states must be handled by public agencies or by workers sworn in as public officials. By September 1 almost $150,000,000 had already been granted for relief to states and territories.

At the Virginia Institute of Public Affairs, Langdon W. Post, associate director of the administration, said that industrial recovery had not yet materially reduced the relief burden and that it probably would not do so for a long time.

Rails

"Nothing drastic, nothing fundamental" at this time for the railroads is one generalization of this part of the program. The Administration at one time considered several thoroughgoing plans for railroad consolidation but decided upon a program calling for a National Coördinator and regional coördinators, with regional advisory committees elected by the railroads themselves for a two-year period. The Act sets aside the anti-trust laws, if necessary for putting into effect an order of the coördinator. The Interstate Commerce Commission was given control over holding companies.

Reorganizations of capital structures of railroads are also to be facilitated.

As coördinator, Joseph B. Eastman of the Interstate Commerce Commission was appointed. His reputation has been that of a liberal, a critic of many aspects of railroad administration, and a well-informed member of the Interstate Commerce Commission. In an interview, published in *The Wall Street Journal,* he said he conceived the main jobs to be the elimination of (1) duplication of services and facilities; (2) unnecessary freight and passenger service; (3) unduly circuitous routes; (4) extravagance in solicitation of business; (5) waste in equipment repair; (6) unnecessary allowances to large shippers in the form of low charges for warehouses, *etc.;* (7) waste in the use of freight cars, *etc.* Regular railroad employment is not to be reduced by an act of the coördinator below the volume of May, 1933. The orders of the coördinator will have the authority of those of the Interstate Commerce Commission, but appeals may be taken by railroads for review to the Commission.

The best known and most immediate action of the coördinator was a purely informal one. The railroads had announced their intention of appealing for a reduction of an additional twelve and one-half per cent (above the temporary ten per cent) from the basic wage rates. Mr. Eastman called together representatives of labor and management, and persuaded the railroads to postpone their request for eight months. It is believed that the Administration felt that it was not a propitious time for reductions of wage rates, when commodity values were rising, volume of industrial production increasing, and the National Industrial Recovery Administration was just getting under way. The controversy

over railroad wages is essentially one between bondholders and workers. Bondholders want wages reduced in order to protect their own income from the properties. But many of the railroads are heavily overcapitalized, and only reorganization can do anything effective for them. Mr. Eastman is said, however, to be opposed to some of the laws which give railroad workers protection beyond that of government employees.

A few other developments relating to railroads may be briefly noted. The advisory coördinating committee were quickly elected. Mr. Eastman then announced a basic survey to reveal possibilities of modernizing and coördinating freight service. . . . The Reconstruction Finance Corporation ordered reduction of salaries before approving a loan to the Southern Pacific Railroad Company. A reporter thereupon quoted a railroad official as saying that railroad managers were now permitted only two powers, one limited: they might still declare dividends if there was any chance of earning them, and they might still choose their own wives. The next day Mr. Eastman said to executives that salaries of those "at or near the top" were still too high. Reductions would not save much money but would be of great psychological value.

Homes

That numerous home owners were among debtors clamoring for relief was illustrated by an incident in Barlum Tower, Detroit, the office of the newly organized Michigan branch of the Home Owners' Loan Corporation (HOLC). Two thousand people had descended upon the building, jamming the corridors of four floors. They began assembling at 3 A. M. When

the offices opened at 8 A. M., a thousand persons were already waiting. They were home owners come to apply for refinancing of mortgages in order to save their homes. When several women fainted the police reserves were called. The Michigan manager of the new corporation went through the corridors, pleading with people to return to their homes, and to mail their applications. The same day the corporation announced the first loan of $3,000 on a Michigan home, the owner of which had been forehanded—he had earlier sent his application to President Roosevelt at the White House.

Home mortgage relief followed in principle and method that of farm mortgage relief, described in Chapter V. The Home Owners' Loan Act of 1933 extended the powers and activities of the Federal Home Loan Board set up by the previous Administration. The Board was authorized to set up the Home Owners' Loan Corporation. The Corporation might issue stock aggregating $200,000,000 which would be subscribed for by the Secretary of the Treasury.

The Home Owners' Loan Corporation was authorized to issue bonds not to exceed $2,000,000,000 at an interest rate not to exceed four per cent. The interest on these bonds was guaranteed by the government. When a home owner was unable to renew his mortgage from other sources, the Corporation might offer to exchange its bonds for the mortgage. No mortgage was to be issued on a building exceeding $20,000 in value, and the face value of the bonds exchanged were not to exceed $14,000, "or eighty per cent of the value of the real estate as determined by an appraisal made by the Corporation, whichever is smaller." If the holder of the mortgage preferred not to exchange it for

bonds, the Corporation might make a cash advance to the home owner up to forty per cent of the value of the property. The loan had to be secured by a duly recorded mortgage. The Corporation might also exchange bonds, or advance cash, to redeem or recover homes lost by owners by foreclosure or forced sale within two years prior to the exchange of bonds or the advance of cash. The Corporation might make such enchanges or advances in cash for a period of three years.

In order to encourage the organization of local mutual thrift institutions in which people might invest their funds and to help in the financing of homes the Act provided for the establishment of "federal savings and loan associations." These associations were placed under the regulation of the board of directors of the Federal Home Loan Bank. Upon the request of the board, the Secretary of the Treasury would subscribe for preferred shares, but the subscription in any case might not exceed the amount paid in by shareholders, and the maximum was $100,000. For such purposes $100,000,000 was appropriated out of the Treasury.

Managers were soon appointed for each state, and the making of loans begun. A variety of opinion greeted the first operations. Widely hailed as it was, Alfred E. Smith said in September it was not workable. *The New Republic* thought it was poor policy to try to rescue individual ownership in a time when increasing socialization was being demanded.

Tennessee Valley

In his Inaugural President Roosevelt said: "We must frankly recognize the overbalance of population in our industrial centers and, by engaging on a national scale

in a redistribution, endeavor to provide a better use of the land for those best fitted for the land." The Tennessee Valley project, including the white elephant of Muscle Shoals, was selected to be Exhibit A of what can be done to plan industry in relation to agriculture. President Roosevelt, it should be understood, is not advocating a large back-to-the-farm movement. He is rather interested, as he has several times put it, in a decentralization of industry which will provide country homes for industrial workers.

This great experiment in regional planning covers the valley of the Tennessee River, which rises high in the Appalachian Mountains. In its total length of 700 miles, the river has a drop of 660 feet and, in one relatively short distance, a drop of 290 feet. Its basin contains 40,000 square miles. Near the river are coal, iron, limestone; in the basin other important minerals such as lead, zinc, and copper.

President Theodore Roosevelt was once interested in developing the Valley of the Tennessee. As early as 1917 its potentialities for producing power received national attention. The Muscle Shoals Dam was erected in order to supply power for extracting nitrogen from the atmosphere for the nation's war needs. Since the Armistice, Muscle Shoals has been a football. Plans are being made to develop power not only there but at other important points.

George Fort Milton, editor of *The Chattanooga News,* says:

"The social implication of this economic experiment is a planned and controlled society for the Tennessee Valley. This calls for an extraordinary change in the present point of view of the residents of the Valley. To bring this about, the educational set-up must be re-

organized, local government must be given a thorough overhauling, slum populations must be relocated, real social planning must be put to work. . . . There is real need for the re-focusing of regional attitudes, for a birth of the coöperative viewpoint, for the upbuilding of the social system."

The instrument is the Tennessee Valley Authority (TVA), a board of three persons appointed by the President. It is given power by an Act approved May 18 to operate Muscle Shoals, develop the agricultural and industrial possibilities of the Tennessee Valley, improve navigation on the Tennessee River, and control floods of the Tennessee and the Mississippi Rivers. It may acquire real estate, build dams, power houses, and transmission lines. It may make contracts and sell electricity, fertilizers, and other products. But its sponsors insist it is to be much more than a project to make cheap power and fertilizer: it is to be a regional experiment in human relations.

The Chairman of the Tennessee Valley Authority is Arthur E. Morgan, recently president of the unique Antioch College, a noted engineer. On June 22 he wrote a letter to the Secretary of State, as follows:

"President Roosevelt has appointed me to be chairman . . . of the Tennessee Valley Authority. In this position I shall have responsibility for certain public money and public property. As a matter of public policy, I am sending you herewith for your records a statement of all the real and personal property and other assets owned by me and by my wife and children as of June 1, 1933. I suggest that this be filed with my oath of office. A copy is being sent to the Attorney General. It is my intention to file a comparable statement when I relinquish the above office."

An Associated Press dispatch described Dr. Morgan's action as "an innovation in governmental office holding." The same dispatch quoted Dr. Morgan as saying that toward the end of 1933 construction could start at Cove Creek near Knoxville, Tennessee, where a dam and reservoir to cost $34,000,000 would be erected over a period of about four years. No decision had been made in regard to the probable time for starting other projects. In a statement of policy on power recently issued, David E. Lilienthal, a member of the Authority, said: "The interest of the public in the widest possible use of power is superior to any private interest. Where the private interest and the public interest conflict, the public interest must prevail."

CHAPTER VIII

DOMESTIC *vs.* FOREIGN POLICY

> Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy.—*Franklin D. Roosevelt.*

In our attempt to appraise one more aspect of the New Deal, we must look abroad. The drastic decline of international trade since 1929 is one of the more familiar phenomena of the depression. That this drop has been due in large measure to increasing tariffs on the part of various nations, and to increased use of embargoes, trade quotas, and other restrictions, is widely recognized. When the new Administration came on the scene, the agenda had been agreed upon for the World Economic Conference to open at London June 12, and a tangle over war debts loomed big on the horizon.

The Peace Message

When the Disarmament Conference meeting at Geneva reassembled late in April, the German representatives demanded Germany's right to rearm, on the ground that the Allies had failed to disarm, in accordance with the Versailles Treaty. This was in direct opposition to plans being considered (all too tardily) to reduce all armies to defense forces. A deadlock resulted which brought on a world political crisis of serious proportions. The situation became no better a little later when the German Foreign Minister, Baron von Neurath, said plainly that Germany's intention was

to arm; and when the British War Minister Lord Hailsham, stated his opinion that, if this was done, Germany would be liable to the application of sanctions under the treaty of Versailles. Soon the Disarmament Conference announced its decision that the Nazi Storm Troups and the Steel Helmets would be counted a part of Germany's "effectives" or military forces. Thereupon Chancellor Hitler announced that the Reichstag had been called to hear on May 17 a message from him on foreign policy. It was generally thought that it would be a belligerent statement. Efforts were made to get the United States, France, and Great Britain to unite in a joint statement appealing to world opinion, but they broke down.

On May 16 President Roosevelt sent his own appeal to the peoples of the world, through their rulers and not their governments. He urged that the MacDonald plan for reduction of armies then before the Disarmament Conference be accepted as a starting point, and called upon all nations to give up offensive weapons in order that defenses might give security. The President said frankly that the fears of many nations were based upon the cold fact that their defenses were unable to cope with the rapid development of offensive weapons. In addition, the nations should promise not to increase armaments and also enter into a "solemn and definite pact of non-aggression," agreeing not to send armed forces across their borders. "Common sense points out," the President stated, "that if any strong nation refuses to join with genuine sincerity in these concerted efforts . . . the civilized world . . . will know where the responsibility for failure lies. I urge no nation to assume such responsibility."

It is believed that, following this appeal, Chancellor

Hitler revised his message to the Reichstag. After rehearsing Germany's felt grievances following the Treaty of Versailles, the speech expressed willingness to coöperate with President Roosevelt's aims and methods. Hitler also said that Germany alone had a basis for her fear of attack. Germany would completely disarm if her neighbors would join in. (Germany also changed her policy at the Disarmament Conference.)

Of all the other nations, France and Japan alone replied to the President's peace message with qualifications. (But the message was apparently soon forgotten the world round.) France felt that her special need for assurance of security had not been recognized. Japan said that, because of prevailing conditions in China, she could not consent to a provision prohibiting the sending of armed forces across frontiers. There is competent opinion that much of the message was addressed to Japan, as well as to Germany. There are informed persons who believe that the President was for a time more concerned about Japan's defiance of the League of Nations than he was about any other question involving foreign policy.

Statements which Norman H. Davis, the Ambassador-at-Large, made at the Disarmament Conference were hailed as one more step away from the traditional American policy of isolation. Mr. Davis gave his opinion that "the time had passed when each State should be the judge of its own armaments," and that Germany, Austria, and Hungary could not be "subject for all time to a special treatment in armaments." Mr. Davis pledged the coöperation of the United States in any move to disarm by mutual agreement "down to the basis of a domestic police force." In addition, the

United States was prepared to go further along the way necessary for the maintenance of peace:

"I wish to make it clear that we are ready not only to do our part toward the substantive reduction of armaments, but if this is effected by general international agreement, we are also prepared to contribute in other ways to the organization of peace. In particular, we are willing to consult the other States in case of a threat to peace with a view to averting conflict. Further than that, in the event that the States, in conference, determine that a State has been guilty of a breach of the peace in violation of its international obligations and take measures against the violator, then if we concur in the judgment rendered as to the responsible and guilty party, we will refrain from any action tending to defeat such collective effort which these States may thus make to restore peace." He also said "in the long run we may come to the conclusion that the simplest and most accurate definition of an aggressor is one whose armed forces are found on alien soil in violation of treaties."

Preparing for London

Meanwhile, the representatives of most of the world were planning to gather at London. Sir Arthur Salter said in an article in *The New York Times,* entitled "The Nations at the Crossroads": "The London Conference will determine whether they are to coöperate for trade recovery, or whether the world is to be broken into separate and perhaps hostile economic units." In preparation, President Roosevelt invited Premier MacDonald and representatives of many other leading nations to Washington for a series of preliminary meetings. They were dubbed in a not unfriendly way

"little economic conferences." The vague publicity given out after the meetings sounded hopeful. Reports indicated that currency stabilization was prominent in the discussions. When Mr. Roosevelt spoke on the radio on May 7, he said in regard to matters international: "All of the nations have suffered alike in this great depression. They have all reached the conclusion that each can best be helped by the common action of all. It is in this spirit that our visitors have met with us and discussed our common problems. The international conference that lies before us must succeed." But by the underground railroad from Washington came reports that persons high in the President's councils were very pessimistic about the prospects at London. Cordell Hull, Secretary of State, one of the most internationally-minded of our political leaders, was said to be a voice crying in the wilderness.

Instalments on war debts were due March 15. Would a moratorium be declared, or would President Roosevelt ask a special grant of power to negotiate our debts while the London Conference was on? It seems clear that at one time he planned to ask that power of Congress. It also seems that he once thought of addressing the American public over the radio on the complex and disheartening problem of war debts. Arthur Krock, of *The New York Times,* wrote an article saying that senators and representatives "dread that question." They "hope he will avoid the issue." If he would not speak on the debts, congressmen "will sleep much better." "They have been telling Mr. Roosevelt, and getting the word to him through others, that he had best limit the rest of the session to a few measures not likely to produce deep dissensions or arouse political difficulties." Mr. Krock went on: "If the situation is

allowed to proceed to a general default in June, a heavy shadow will be cast over the London conference. If the issue is met, unless the President has in his silk hat a white rabbit of extraordinary agility and persuasiveness, there will be trouble in the ranks."

When Mr. MacDonald, in opening the World Economic Conference, mentioned the subject of debts, even though admitting it should not come on the agenda, he drew many unfavorable comments from American newspapers. Perhaps congressmen are most accurately informed as to the sentiment of the people on this question. At any rate, the issue of the war debts was not met—was it because there would have been too much trouble in the ranks? Great Britain made a token payment in silver which Mr. Roosevelt said he did not personally regard as a default. He said he was willing to negotiate with Great Britain. France again paid nothing and was placed in a different category.

The London Conference

The agenda of the London Conference called for discussions of monetary policy, problems of credit and indebtedness, and tariffs and trade barriers. But Walter Lippmann, who was there, reported that it was soon evident that the agenda agreed upon in January could not be carried out. The situation had altered too much. Europe had no idea in January that the United States would go off the gold standard. Says Mr. Lippmann: "The gold countries tried to carry out the program as laid down in January. . . . [That program] opposed currency depreciation." To our delegation on arriving in London, the agenda no longer fitted the facts. "That is why there has been so much

confusion. . . . They made two or three false starts . . . had to be reminded from Washington that there was a new deal." Soon the nations divided into two groups: the one was the gold bloc of fifteen European nations; the rest of the twenty-five nations were not so much of a bloc, being much less clear about what they wanted.

In the United States prices had started advancing, the first phase of recovery seemed to be under way, and debtors did not want currency stabilization—as yet. President Roosevelt, who on May 16 had said "the conference must establish order in place of the present chaos by a stabilization of the currencies," cabled on July 3 that he "would regard it as a catastrophe" if currency stabilization was attempted first. "Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing power and debt paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two."

Was our recovery interfering with our international coöperation? In the United States discussion began as to whether the President meant the price levels of 1923-25. On July 5 the American delegation to London handed to the Secretary General of the World Economic Conference a statement defining their stand. It contained the following:

"Revaluation of the dollar in terms of American commodities is an end from which the government and people of the United States cannot be diverted. We wish to make this perfectly clear. We are interested in American commodity prices. What is to be the value of the dollar in terms of foreign currencies is not

and cannot be our immediate concern. . . . There is nothing in our policy inimical to the interests of any other country and we are confident that no other country would seek to embarrass us in the attainment of the economic ends required for our economic health. . . . The first task is to restore prices to a level at which industry and above all, agriculture, can function profitably and efficiently."

In New York City twenty-three business men, including persons interested in cotton and rubber, telegraphed their congratulations to the President, approving his monetary policy. Apparently not all the inflationists were among the agrarians. The Committee for the Nation, consisting of business and agricultural leaders, and including Lessing J. Rosenwald and J. H. Rand, Jr., continued its agitation for a reduction in the gold content of the dollar sufficient to bring back the price levels of 1926. The commodity markets continued to be strong. In foreign exchange the depreciation of the dollar was thirty per cent. "Americans can peg the dollar alone," ran a headline in *The New York World-Telegram,* a Scripps-Howard paper.

In London, Secretary Hull appealed for harmony, when a break-up of the Conference was threatened. There were still useful topics, if currency stabilization was eliminated: "I would list, for example: Price levels, credit policy, innumerable prohibitions and restrictions strangling mutually profitable trade associations, retaliation, and countless other war-breeding trade practices and methods." He spoke of the desirability, as a first step, of restoring the 1931 price level.

In mid-July Professor Moley returned, non-committal about the London Conference. A *New York*

Times headline read: "Roosevelt pushes internal program." In *The New York Evening Post,* Ralph West Robey, who had attended the Conference, said it was "worse than mere failure." The "economic conference has unleashed forces and antagonisms of immeasurable force." The loan of the Reconstruction Finance Corporation of $4,000,000 to finance Russian purchases of cotton was hailed in London and Moscow as promising recognition by autumn. Perhaps the most definite result of the London Conference, from the point of view of the United States, was the noticeable collaboration of Litvinov, the Soviet Foreign Minister, and the American delegation. An agreement on export quotas for wheat on the part of the principal exporting countries, with the exception of Russia, was reached at an adjourned meeting in August, but it was not clear how the agreement was to be carried out.

When the Conference adjourned, it seemed settled that the warring nations whose representatives had gathered at London had decided not to stop fighting.

Nationalism *vs.* Internationalism

Walter Lippmann told the graduating class at Union College that post-war economic nationalism had driven out the principles of international coöperation advocated by Woodrow Wilson.

"The Wilson ideal," he said, "was founded upon political nationalism and economic internationalism. The nations were to have self-determination as to their frontiers, but were not to exercise their national sovereignty in the realm of commerce. It was hoped that free trade would make the nations economically interdependent and thus mitigate the dangers of their being nationally separated. Now, for a multitude of reasons,

the actual course of events has been quite different from that which the founders of the League hoped for. For one thing, the victorious powers insisted upon payments from the defeated powers and upon payments from one another, which for more than ten years exercised a destructive and deflationary effect upon world commerce. For another, it turned out that certain of the new boundaries involved hardships and humiliations which blasted the hope of a genuine moral reconciliation between victors and vanquished. But above all, the events showed that peoples were not prepared to accept the basic idea of the Wilson peace. With the United States well in the lead of the procession, the nations adopted economic policies which were a denial of the principle on which the new order was to have stood."

Dean Wallace B. Donham of the Harvard Business School and Sir Arthur Salter discussed "The Way Out" from different points of view in *The New York Times*. Sir Arthur said that "economic nationalism will lower living standards and provoke conflicts," holding out "for coöperation as the highest goal of statesmanship." Dean Donham said that "the London Conference must fail because the world cannot plan internationally," contending that "we can meet our problems within controllable domestic areas."

Raymond B. Fosdick announced:

"The whole philosophy upon which the League of Nations movement rests is now being challenged in high places and the next few years are bound to see a struggle for survival between the spirit of the internationalism, represented in the covenant of the League of Nations, and the older form of nationalism now appearing in a new guise."

Charles A. Beard said at a symposium on nationalism in connection with a special meeting of the American Association for the Advancement of Science in Chicago:

"American nationalism, notwithstanding certain outward similarities, differs from that of Europe in many respects. It never has been associated with a powerful monarchy or state church. It is republican and secular in institutional expression, despite the power of Protestant sects. It is not associated with long and bitter rivalries and wars against powerful neighbors. In the consciousness of the average citizen of the United States, Mexico and Canada are geographical expressions, not armed personalities crouched to spring.

"Nationalism in the United States is not racial in the narrow European sense. The very name American comes from the accidental attachment of a man's name to a map. The number of American citizens who are aware of or take seriously the great Nordic myth is small. Even if the quota system works against certain nationalities of Europe, that may be called an accident of history; it is primarily because the ignorant competitors of the American Federation of Labor came from those regions when the restrictive legislation was enacted. Besides expressing itself institutionally and culturally, American nationalism, in the economic sphere, takes on the form of an almost complete autarchy. A searching analysis of American foreign commerce by Dr. Alfred Ruhl shows that in 1927 only about ten per cent of American imports entered into direct competition with the domestic production. While the subject of economic autarchy is being discussed by theorists, the fact has been substantially established as a phase of American nationalism. That, too, is of pro-

found significance for the future of world relations."

Frank H. Simonds generalized:

"On July 3 the New Deal 'went native.' On that day the President had to decide once for all whether to coöperate at the price of compromise of vital principle or throw off all pretense of internationalism and stand forth undisguised and unashamed as a 'hundred per center.' And the choice which he then made must henceforth exercise a determining influence upon American foreign policy for a long time to come. For, as a consequence of that decision, the United States has been committed to a policy of economic nationalism, the implications of which are limitless."

The Roosevelt administration had thus obviously put aside international coöperation for a domestic economic program. After we had remedied things at home, we would generously coöperate abroad—this seemed to be the policy. But the lessons of experience indicated, unfortunately, that this would not necessarily follow.

CHAPTER IX

INTO ANOTHER PHASE

> The achievement of good government is . . . a long, slow task. . . . Perhaps the greatest duty of statesmanship is to educate.—*Franklin D. Roosevelt.*

"Recent weeks have been an inventory of exciting hope," read an editor's note in the *Survey Graphic* for July, 1933. But when Congress adjourned, the New Deal moved from the legislative phase to that of being tested by the tough routine of administration. It is this phase which will throw more light than the previous one on whether the Roosevelt policy will really result in effective planning; whether what we are going through will be primarily revolution or primarily recovery, or neither; and whether the administrative success will popularly be thought as great as the legislative. Before taking a look at these questions, we should make a brief appraisal of the first phase of the New Deal.

The Legislative Triumph

Some of the main reasons for the legislative accomplishments of the new Administration were evident. The depth of the crisis and the finesse of the President stood out. That he must have had tremendous popular support goes without saying. Many were the congressmen whose desks were piled high with correspondence from back home which could only be translated into one meaning: "Support Roosevelt." That popular support had been tremendous was eloquently revealed by the frightened remarks in editorials in such newspapers as *The Chicago Tribune* or *The*

New York Herald Tribune. Another factor not often mentioned in the news is that the new Congress practically had patronage withheld from it, while it was in session. Even one of the most liberal Democratic senators, when asked what he most wanted the President to do at a critical time, replied naïvely: "I wish he would settle the question of patronage!" Furthermore, it was to a large extent an inexperienced Congress.

The legislative program called for large borrowings during 1933-34 and thus for tremendous additions to the public debt. The prospect of these operations—and the eventual taxes—was positively terrifying to many an investor. On June 30, 1933, the federal government had, by accumulating deficits from the past three fiscal years, added some five billions to the public debt. Now it might within another year add that much more. The Administration was admittedly opportunist in its tax policies. When the recovery bill was submitted to Congress by the President, he asked that body to specify the taxes to be levied for retirement of bonds. Congress continued certain consumption taxes, such as those on gasoline and electric power. Whether the Administration could rescue the nation from an archaic and chaotic tax system remained to be seen. Furthermore, nothing was done about refunding large portions of the public debt at lower interest rates, although there were vague intimations that this was being considered.

All talk about a balanced budget applied only to what have been called the regular expenditures. On July 1, new rules for budgeting were adopted. All of the extraordinary expenditures of the various new administrations were to be met by borrowing. A limited

reorganization of the old departments of the government was under way. The greatest savings, of course, were made in veterans' compensation. Salary cuts of fifteen per cent were made. By July 1, over eight thousand federal employees had been released and many more were to go. Many indefinite furloughs were announced. For example, some three hundred employees of the Department of Agriculture were furloughed, without any word as to when they might be re-employed. The director of the budget played a leading role in the new Administration. There were those who thought his part had become more important than that of the Secretary of the Treasury. Mr. Douglas had already demonstrated that he could give many a soft "No," even though he was reputed to be one of the hardest-boiled and -bitten of the official family.

On most measures, voting in Congress was bi-partisan. Every Republican in the House voted for the Emergency Banking Law. The National Industrial Recovery Act was saved in the Senate by the votes of western Republicans. The total policy has been predominantly nationalist. This was foreshadowed to careful readers of the Inaugural. There is considerable evidence, as we saw in the previous chapter, that President Roosevelt did not dare to ask Congress for special grants of power to negotiate on war debts, even though that was seriously considered. On no subject was Congress more sensitive. Nearly every informed person thinks the war debts will not or cannot be paid in any but small amounts. But Congress would not face the issue—it had been sent to Washington by debtors whose outlook was largely provincial. The decision to build up the navy, and the sorry record of the London Economic Conference, are further evidence that the

New Deal is more the expression of provincial America than of a philosophy of international coöperation.

Recovery or Revolution?

Is recovery the enemy of revolution? If we have revolution, as is contended in this book, what is the brand?

"There are two views," said Forrest Davis of the Scripps-Howard Press, after sounding out business opinion on the National Industrial Recovery Act and other aspects of the program. There are those who want recovery plain, hoping there will be not too much collectivism. Others prefer revolution, "structural change in industry and a fairer division of income." "When wheat hits $1.30 a bushel there will be no more farm revolutionists," was an observation heard frequently. It has been so; it will be so again, it was alleged.

"It is a revolution," read the first sentence of an article in *The Literary Digest,* summing up newspaper opinion. *The London Times* could say it was "nothing short of revolutionary," when the blanket code was announced. At the meeting of the National Electrical Manufacturers' Association, a member remarked that the new legislation was "wholly and utterly revolutionary." The members present voted, however, to give their board of governors power "to do any and all things that may be permitted or required by the provisions of the National Industrial Recovery Act." At the Wellesley Commencement, James G. McDonald, Chairman of the Foreign Policy Association, told the graduates they were going into a "revolutionary era, a new and rapidly changing environment where it would be vain to be wholly guided by the past." In *The*

New York Herald Tribune, Edward H. Collins wrote that "an analysis of thirteen major measures" revealed that Congress had departed from the "essential economic philosophy" of the past hundred and fifty years. From London, Harold Callender wrote that the new Administration is regarded in Europe "as equalling in scope her political upsets." Professor J. A. Hobsen, well-known British economist, regarded it "an experiment of fascinating interest."

Virgil Jordan, newly elected president of the National Industrial Conference Board, said to the New England Council:

"We may as well recognize that since March 4 there has been a revolution in the United States and that for the next six months, at least, American industry, agriculture, transportation, and finance will be subject to a potentially absolute and possibly benevolent dictatorship. No doubt this dictatorship is justified by the unemployment emergency, and we must approach the experiment in planned control and detailed administration of our economic system with an open mind, prepared to play the part assigned to us."

He also believed it to be a fundamental aim of the Administration to achieve "a redistribution of the current national income through wage increases, higher farm prices, and increased taxation of higher incomes, so as to discourage saving and cause a relative expansion of lower incomes, which go mainly into consumption."

At the Virginia Institute of Public Affairs, Mrs. Laura W. McMullen of New York, Chairman of the International Relations Department of the General Federation of Women's Clubs, remarked: "A revolution is in progress, in the course of which the institution

of private property is being quietly undermined. As a matter of fact, President Roosevelt is initiating an economic revolution." And so experienced a political writer as Anne O'Hare McCormick observed in *The New Outlook,* that President Roosevelt "thinks of himself as the leader of a revolution." He is trying out "new formulas, new combinations, in search for the synthesis of the philosophy of Thomas Jefferson, the statesman he most admires" and the requirements of the economic crisis of 1933. "This search he recognizes as a revolutionary process."

A canvass of the editorials appearing in thirty leading agricultural journals revealed that all but one applauded the farm relief program. Mr. John D. Rockefeller, Jr., appealing over the radio for support of the NRA program said that "to turn back is unthinkable." Rev. Elliott Darlington, of the Protestant Episcopal Church, said in a sermon: "This is the first time in any one's memory that religion is about to be tried on a national scale, with all coöperating until each has a share in the national work. The whole program is the realization of a command, 'Love thy neighbor as thyself.' . . . We can get along without the selfish *laissez faire* Puritan virtues if in the end we can grow social conscience culminating in a conquest for equity and justice. . . . We must have coöperation and collectivism."

Everywhere discerning leaders were trying to assess opinion. A prominent social work executive wrote in a letter that he could not apply the term revolution to the events of March to September because he did not think there had been a revolution in the thinking of enough of the people. Secretary Wallace said at one time that the task was no less than that of changing the psychology of the people. At the American Country

Life Conference he said that most Americans, rural and urban, were still at heart hard-fisted pioneers. Would the robust collectivism, which was rearing its head, win out over the individualism of the pioneer, was a question which concerned educators and social scientists.

One of the most interesting and penetrating of the statements made on the relation of opinion to the New Deal was that by David Cushman Coyle, an engineer, who spoke on "Necessary Changes in Public Opinion in the New Social Order" at the National Conference of Social Work:

"So far public opinion is in only the first stages of its education. . . . In the last analysis the success of our passage into the new age of plenty will depend on whether the public will be led to agree to the necessary measures for distributing purchasing power. . . . The American people are forced to make profound readjustments in the whole structure of their thinking. . . . The American people have been selected by their past history for their adventurous and unruly qualities. Our genius for not obeying superfluous laws is immense. There is no widespread desire in America for any neatly organized society. The American people may hope to establish and to maintain whatever social controls are necessary to make the age of plenty operate, if they can learn what those are before it is too late. But they will almost certainly refuse to establish, or fail to maintain, the discipline that would add the last touch of efficiency—and of justice—at a disproportionate cost of freedom of individual action. . . . Underlying the changes of habit and of law that are now beginning, our philosophy, our religion, our very language are already shaping themselves for new purposes and new standards of judgment. . . . Reli-

gion is obviously turning from traditional moral standards to new standards based on pragmatic and esthetic sanctions. . . . Our words begin to show the drift of our thinking. The old sins of avarice and of usury, forgotten in the age of thrift, are coming back under new names. . . . The vanguard of modern thought begins to breathe the air of the new world."

In announcing the annual Labor Sunday Message issued by the Commission on the Church and Social Service of the Federal Council of the Churches of Christ in America, Dr. Samuel McCrea Cavert commented that the social ideals of the churches were being promulgated for the first time when a federal government was applying many of the policies which the churches had advocated for two decades. The latest draft of the social ideals of the churches had declared for the abolition of child labor, the social control of credit, economic planning, economic justice for the farmer, the right to collective bargaining, a more coöperative organization of industrial relations. In October, 1932, President Roosevelt said in a speech in Detroit that his social philosophy was that which had been contained in the statements of the National Catholic Welfare Conference, the Central Conference of American Rabbis, and the Federal Council of Churches.

But there was much discussion within religious bodies in regard to the extent to which the ideals had been translated into law, in regard to the validity of particular techniques which the Administration was applying. There were many very enthusiastic. One said the Roosevelt Administration was bringing the kind of socialization which the liberal churchman had

been advocating. Others were frankly disturbed at the degree of experimentation involved. Others prayed, in effect at least, "Lord, give us socialization, but not just yet." Others clung to the individualism which has characterized the conventional expression of the majority of the institutions of religion in the United States.

Owen Young summed up his view of the situation at the Radcliffe Commencement as follows: "What is happening is that more and more we are merging control of our politics and economics in one central body." President Roosevelt interpreted the Administration's scheme of industrial planning as not control but a partnership between government and industry. But to Alfred E. Smith, it was bound to fail; it invaded private enterprise too far, was too revolutionary; he could not go with the new school of industrial planners. At the St. Lawrence University Commencement, Ogden L. Mills, former Secretary of the Treasury, warned that industrial planning on a wide scale would be "not only intolerable, but impracticable." At Smith College, Alanson B. Houghton, former Ambassador to Germany, said that "the thin edge of governmental control has already been driven too far." The present age needed more individual freedom, not less, he contended. "If gradually . . . our economic interests are placed under governmental control and direction, beyond making the rules of the game more adequate and comprehensive, the time may well come when, on grounds of general well-being, that control and direction will be tested. And so, in my opinion, the economic interests will prove stronger than the political. A form of governmental organization may easily evolve which will be intolerant of opposition, have inherent need of obedi-

ence, and, in the belief that his welfare demands it, will submerge the individual."

In an article in *The New York Times,* Norman Thomas described the recent events as simply a "step toward a form of state capitalism. . . . Mankind is at the crossroads. There is no road back to the older capitalism. There is one forward straight to catastrophe. There is one to state capitalism, almost inevitably of the fascist brand, which is of itself disaster and may possibly postpone but cannot avert catastrophe. A third road leads to communism, with its ruthless dictatorship and denial of religious and civil liberty. It is a road we in America will scarcely take unless we have first traveled the terrible road of a fascist dictatorship far more reactionary than communism. The only other road leads to socialism." The Executive Committee of the Socialist Party sent out a somewhat similar statement. It is a thesis of those at the left that, although planning is possible within capitalism, efforts generally tend toward the right, in other words, to fascism.

We had already taken the American road to fascism, thought E. Francis Brown, associate editor of *Current History,* writing in that magazine for July, 1933. Dictatorship is not essential to fascism, he holds; fascism depends upon economic nationalism, eliminates social and economic waste, and preserves the best in capitalism. Our American brand of fascism is to have middle class control, he believes.

"If recovery comes," asked George Soule in *The New Republic,* "and the Devil begins to convalesce, will he still wish to be good? Shall we relapse to the old anarchy? Or shall we enter a capitalist dictatorship? Or will more drastic changes be enforced by a suffering and impatient populace? What we have now created

is not a reformed industrial system, but a mixture in which problems will be precipitated with greater clarity, an arena in which sides may be chosen and significant conflicts waged."

Is It a New Federalism?

Another set of questions centered around the relations of the executive and the legislature, and of possibly new definitions of the relations of the states to the federal government. The remark "Congress has abdicated," contended *The New York Evening Post,* "is a true statement. Congress, in fact, ceased to function except as a machine to give emergency powers to the President. And the main reason the people acquiesced in this was the record of selfishness, of cowardice, and of parochialism made by senators and representatives. . . . The President is the country's main hope." This deliverance was made during the disagreement between the President and the Senate over veterans' compensation. It is an opinion that has been heard far and wide in many other connections. But President Henry Noble McCracken, giving Vassar's Commencement address, thought differently: "Some intellectuals will see in the present administration of affairs in Washington a revolution. To me the Administration is one of liberal democracy." Another speaker likened Mr. Roosevelt's powers to those of a good city manager. And Simeon Strunsky, writing in *The New York Times,* observed that "democracy still stands firm." Most people, he wrote, do not regard Mr. Roosevelt as a "dictator" even though the press persisted in using the word constantly.

The Business Week said in an editorial: "The wolves of depression have to be shot and without the delay

inherent in deliberative procedure. It is essentially a one-man job."

The interpretation of Morse A. Cartwright, executive director of the American Association for Adult Education, in presenting his annual report for 1933, was:

"Observers of American social and political institutions have noted in the last few months an unparalleled transfer of democratic rights and privileges to the executive arm of the government. The powers given to the President of the United States through action by Congress, supported by an overwhelming public opinion, are without precedent in our peace-time history. The American people have quite clearly reached the conclusion that in an emergency a concentration of authority is both necessary and wise. . . . The amazing cheerfulness with which our people are submitting to executive dictatorship, and the corresponding abdication of legislative control, should not be subjected to misinterpretation. It is our national nature to react quickly in emergencies. It would be a false appraisal of the people's motives that would attribute to fear alone our willingness to suspend certain democratic practices. This submissiveness goes far deeper into our experience than mere surface fright. Past emergencies, domestic and international, have produced similar lapses from a deeply ingrained theory of a government of, by, and for the people. We have learned that there is such a thing as a return from dictatorial concentration to the normal, even if faulty, functioning of democratic government. We feel secure in the knowledge that the slightest abuse of concentrated authority will provoke swift reprisal on the part of the people. We know that the dictatorship can truly stand

only so long as it is the will of the voter that it should stand. This security is made doubly sure by the complete negation of military power as a factor in our political situations. A military dictatorship, even in time of war, would outrage every right-minded American. These are some of the factors inherent in American life and institutions which differentiate us, definitely and distinctly, from most of the European nations and from most of the nations of the world."

But Mr. Cartwright went on to observe: "It is inevitable that changes in our political practices, even though temporary in nature, should have an immediate effect upon our educational procedures. The introduction into the educational structure of principles definitely fascist in nature is already taking place. A state university president recently remarked a present tendency among his colleagues to discard many of the democratic precepts hitherto motivating educators. A none too gradual abandonment of the attempt to provide educational opportunity for all at various academic levels is now in progress and is being accelerated by the immediate necessity for economy in all school expenditures, whether in the primary grades or in the colleges."

What would the Supreme Court do about the new relations between the President and the legislature, was another agitating question. *The Christian Century* in an editorial viewed the prospect with alarm: "Mr. Roosevelt's policy, having passed Congress, must now be subjected to the review of the Supreme Court, where there is reason to fear that much of it may be declared unconstitutional. Should this occur—should the court veto the program which the executive and legislative branches of the government have agreed is necessary for national recovery—there will follow a crisis in the

national government which may easily exceed in its intensity and far-reaching effect that which followed the rendering of the Dred Scott decision." Whether the new laws work well or not, they are going to be tested. "Nine old men," *The Christian Century* went on, will determine their fate. The Constitution, it holds, was framed to maintain essential state control over industry. "The Constitution embodies the inviolate rights of private property." The hope lies in the fact that the laws are all labeled "emergency." So thorough a student of the Constitution as James M. Beck thought the New Deal was simply accelerating the process of killing the Constitution which had been going on for fifty years. In fifty years more he foresaw the end of the Constitution. He was mostly concerned about the changed spirit of the people. A majority did not care whether the Constitution was destroyed or not, he believed. While many observers were doubting any important change in the temper of the people, here was one who was alarmed at the amount of change that had taken place.

Rexford G. Tugwell, Assistant Secretary of Agriculture, addressed the Federation of Bar Associations of Western New York, on June 24, 1933, on this same subject. His speech was summed up by one reporter with the clause: "Of course the new laws are constitutional." Dr. Tugwell was bold enough to believe that what had been done in Washington since March 4 was "to rediscover the Constitution, to revitalize the powers it was intended to create. . . . The success of the new spirit demanded restoration of power to the executive. The executive branch of the government is not a piece of mechanism. It is a body of men. If the new program is to succeed, these men must be wise,

able, ingenious and honest. The shift to a new design of government would be a total failure if there were otherwise. President Roosevelt is establishing at this most critical period, an enduring pattern of administrative conduct." He quoted the famous opinion of Mr. Justice Holmes: "The Constitution was not designed to establish for all time any particular economic theory, whether of the organic relationship of the individual to the state or of *laissez faire*."

We may recall the conclusions of Charles A. and Mary R. Beard regarding the significance of the opinions of John Marshall when Chief Justice of the United States. Marshall, they say, "laid the judicial foundation for a broad and liberal view of the Constitution as opposed to a narrow and strict interpretation." According to Marshall, Congress had a wide range of "implied" as well as "express" powers. In the case of McCulloch *vs.* Maryland, involving the question whether the Constitution permitted Congress to establish the second Bank of the United States, Marshall held that "with respect to the means by which the powers that the Constitution confers are to be carried out," Congress has the discretionary power which "will enable that body to perform the high duties assigned to it, in the manner most beneficial to the people." In *The American Leviathan,* Charles A. and William Beard pointed out the varying interpretations our Presidents have made of their powers. Theodore Roosevelt thought he could do anything not prohibited by the Constitution; Grover Cleveland thought he could do only what was specified by the Constitution; Abraham Lincoln reasoned that, having sworn to defend the Constitution, he could use all reasonable power to do so.

At the Commencement of the University of

Rochester, Judge Samuel Seabury of New York gave the following as his judgment of the situation:

"As I see it, we are entering upon what I call a new federalism. The old federalism contemplated merely a division or apportionment of power upon a territorial basis among governmental units. The new federalism, applied to industry, visions the exercise of social power not merely in relation to territorial or governmental units but to the industrial functions that are to be performed and upon the proper discharge of which the prosperity and happiness of our whole people depend. In an industrial society the great processes and activities of economic life must be accorded an opportunity to function, and to do so in coöperation and in harmony with the other factors in our social life. The hardships which existed even in a period of so-called prosperity, as well as the tragedies incident to our recurring depressions, have revealed the absence of such coöperation and harmony.

"The industrial forces which are potent in the age in which we live make it necessary that, if we are to have an industrial democracy, industry must itself be democratically controlled so as to protect the interests of producers and consumers alike. To this end it must be so organized and operated as to secure coöperation and harmony between the factors engaged in it. We cannot allow our whole industrial structure periodically to be blown into the great bubble which we call prosperity, only to spend years in misery when the bubble suddenly bursts because of heterogeneous and illogical relations between supply and demand, and between the public weal on the one hand and an insatiable private acquisitiveness on the other. Rational readjustment to prevent such catastrophes there must be. . . . As I

see it, the administration at Washington is endeavoring to give intelligent leadership to the great middle class of this nation which, up to this time, have stood not only mute but unrepresented while their interests have been ground between the upper and nether millstones of highly organized groups representing capital and labor. If we would achieve industrial democracy, the principle of representative government must be introduced into the great key industries of the nation."

The Slow Fires of Administration

Whether Mr. Roosevelt is establishing an enduring pattern of administrative conduct or not, his record in the phase he is now entering will be judged largely by how well he can administer and how impressive his administration will be as compared with his legislative triumph. For there are those who hold with Virgil Jordan that the New Deal "establishes a government of men rather than of law. The persons to whom it grants these broad powers will have to make a new body of law for themselves, and the effects will depend mainly upon how these persons use their power." Would the President and his assistants be capable of the "mounting expenditure of eternal vigilance" as Kenneth Burke put it in *Counter Statement*.

R. L. Duffus observed in an article in *The New York Times* that the capital remained dynamic in the summer heat and "the administrations of the measures aimed at national recovery bend a confident energy toward their task." Coördinating the coördinators stood out as a major task—could the President be the "boss coördinator"? A step in this direction was the announcement that he had formed the Executive Council of National Recovery, consisting of the Cabinet, the

heads of all the recovery administrations, and the Director of the Budget. The Executive Secretary of the Recovery Council is Frank C. Walker, a lawyer of Butte, Montana, and New York City, recently Treasurer of the Democratic National Committee. The Council is to meet every Tuesday, and its meeting on that day takes the place of the regular cabinet meeting. Immediately sections of the press called it a super-cabinet, and said it resembled the Fascist Grand Council. But coördination seems to be its job. In addition to the President, the Cabinet, and the Executive Secretary of the Recovery Council, the members are: The Director of the Budget, Lewis W. Douglas; the Chairman of the Reconstruction Finance Corporation, Jesse H. Jones; the Governor of the Farm Credit Administration, Henry Morgenthau, Jr.; the Chairman of the Board of the Home Owners' Loan Corporation, William F. Stevenson; the Administrator of the Industrial Recovery Act, Hugh S. Johnson; the Administrator of Agricultural Adjustment, George Peek; the Federal Relief Administrator, Harry L. Hopkins; the Chairman of the Board of the Tennessee Valley Authority, Arthur E. Morgan; the Federal Railroad Coördinator, Joseph B. Eastman; the Director of the Civilian Conservation Corps, Robert Fechner.

As an administrator, the President has already demonstrated his capacity for flexibility, for being sensitive to varieties of interests and problems. He himself has said that he must go forward very much as the quarterback of a football team. An editorial in *The Saturday Review* of Literature calls the policy "pragmatism with a vengeance." The President seems to have demonstrated rare skill in the use of experts and advisors. In this connection, it must be noted that

he makes his decisions, often after listening to conflicting advice. For, as every one knows, brains disagree. There never was any "Brain Trust" in the sense that it was an organized group. Many of the members of the "Brain Trust" have seldom seen one another since they have been in Washington. They are simply specialists working in their own bailiwicks. In effecting some reorganizations of the regular departments, the President has already moved with neatness and dispatch. Putting all postmasters under the civil service was an act of courage, even though it did not take them out of politics and may have been a device to simplify Mr. Farley's problems of patronage. Appointments may now be made from the highest three candidates taking an examination.

There are broader questions which will also be settled to a considerable degree by wise and impressive administration. How will the President use his powers to inflate credit and currency? Will he achieve a managed currency and how? How well can he reconcile rural and urban interests? Will he guide our first experiment in industrial planning so as to coördinate agriculture and industry? Will he be able to coördinate the credit, production, distribution, and consumption of both? Is the New Deal a producers' administration and is the consumer the forgotten man? Will he achieve as he aims, "not class control but a true concert of interests"? Sooner or later he must grapple with matters international—how will they be handled? Can he so administer his program as to help to reveal once more to the minds and the spirits of men, what Herbert Croly, one of the wisest Americans, had a generation ago put so aptly—"the promise of American life"?

The Revolution, then, is "young robust collectivism,"

waging a battle against the "hard-fisted pioneering" which had hitherto been secure in the affections of the people. In agriculture, where it had its origin, it aims at the restoration of a better rural-urban balance, but does not attempt a reorganization of the distribution system. In industry, to which it spread, it seeks to begin economic planning by intensive voluntary coöperation on the part of functional groups, *i. e.,* trade associations, organizations of workers, *etc.,* along with great governmental supervisory powers. The driving forces behind it are debtors, mainly farmers and urban home-owners, and the urban industrial and middle classes. It is as yet rural and urban, not rural *versus* urban. Its policy of "pragmatism with a vengeance" represents startling new departures, even for some of the groups which are enthusiastic about it. It puts economic nationalism before international coöperation and probably is a backward step so far as foreign affairs are concerned. It is led by a man who combines a social philosophy with the hard-hitting necessary in politics, and an extraordinary sense of the elements in the American scene, including our social heritage. He seems to know when to play the trump cards of the New Deal. The Revolution is in the throes of administration made unusually difficult by the fact that the goals set up call for far-reaching results in a short time. Only genius of administration can triumph.

APPENDIX

HOW TO USE THIS BOOK FOR DISCUSSION

A. First Consult Current Sources

Because of the changing nature of the subject matter, it is desirable for leaders and members of discussion groups to consult local and national newspapers and periodicals for reports on current developments. Among the periodicals interpreting and digesting significant data are:

The United States News (formerly *The United States Daily*), Washington, Weekly, $.10 a copy. A record of activities of the United States Government, without editorial comment.

The Business Week, New York. Weekly, $.20 a copy. Interpretations of developments in the business world.

The New Republic, New York. Weekly, $.15 a copy. A journal of opinion which has been largely critical of Administration programs.

The Nation, New York. Weekly, $.15 a copy. Variety of comment and data, mainly critical of the New Deal.

Information Service of the Federal Council of Churches, 105 East 22 Street, New York. Weekly except July and August. $.05 a copy. Digests and interpretations of current data on industrial and agricultural questions.

The Literary Digest, New York. Weekly, $.10 a copy. A source for summaries of newspaper opinion.

Current History, New York. Monthly, $.25 a copy. A month by month record of the world's history.

Common Sense, New York. Monthly, $.15 a copy. A journal advocating a new political alignment.

The World Tomorrow, New York. Semi-monthly, $.15 a copy. A Christian socialist journal.

The Christian Century, Chicago. Weekly, $.15 a copy. An undenominational journal of opinion, carrying many social data.

The New Outlook, New York. Monthly, $.25 a copy. Variety of articles on public affairs.

Harper's, New York. Monthly, $.40 a copy. Vigorous articles on public questions.

Review of Reviews, New York. Monthly, $.25 a copy. Appraisals of and comments on current events and problems.

The Congressional Digest, Washington. $.25 a copy. The "pro

and con" monthly—digests opinions for and against important proposals.

Today, New York. Weekly, first issue during October, 1933. Announced as an interpreter of public issues, with support of the New Deal.

The Survey, New York. Semi-monthly, $.25 a copy. A magazine of social interpretation and exploration.

Labor Action, New York. Weekly, 3 months for $.25. The organ of the Conference of Progressive Labor Action.

The Advance, New York. Monthly, $.10 a copy. Journal of the Amalgamated Clothing Workers.

American Federationist, Washington. Monthly, $.25 a copy. Organ of the American Federation of Labor.

The Woman's Press, New York. Monthly, $.25 a copy. Journal of the National Board of the Y. W. C. A.

Rural America, New York, $.20 a copy. A journal of rural affairs.

The Manchester Guardian Weekly. $3.00 a year from 220 W. 42nd St., N. Y. Represents English liberal opinion.

Most libraries will have available *The Readers' Guide to Periodical Literature,* which may be consulted for recent references.

A comprehensive bibliography on social and economic questions, many of which are touched upon in this book, is found in *Our Economic Life* (Association Press, New York, 1932, paper, $.90, cloth, $1.50), prepared by a special committee of the Department of Research and Education of the Federal Council of Churches. This book also contains a thorough outline for consideration of certain of the more fundamental problems which are here dealt with. It may well be consulted by the leader who carries on discussion of the issues outlined below. In order to indicate how the two books might be used to supplement one another, references to *Our Economic Life* are made in this outline.

B. Questions for Discussion

Below are outlined suggestions for discussion of a series of issues and questions touched upon in the book. References are made to pages where data may be found, to the kind of first-hand information, observation, and opinion that may be introduced, and to certain aspects of each theme which a discussion group or a class may wish to consider.

This discussion syllabus is planned only as a general guide, and it is expected that each leader will use as much as he finds suitable, and will add questions or sources. It does aim to open up questions in which the author believes there will be public interest and

on which people will be developing opinions. The discussions do not follow the chapters of the book, but references are given to pages where pertinent materials may be found. It may be that events six months after this book went to press will have an important place in any discussion of the New Deal. The leader must therefore take his own look in advance at the outline of each discussion to see if important issues he wishes to treat are included. If not, the periodicals listed above and the other suggestions made later will, we hope, lead him to the current data which he needs.

In general, each discussion should include:

1. A pooling of the experience of members of the group on the problem;

2. Some analysis of issues that appear;

3. Consideration of practical steps members of the group might take.

For leaders wishing suggestions on the management of discussion, *Creative Discussion,* by A. D. Sheffield, Association Press, $.60, is recommended.

Discussion 1. How are the NRA codes working out for industry?

See pages 37-76, 129-135.

See "Objectives in Economic Reconstruction," Chapter IX in *Our Economic Life.*

Both the codes being considered by NRA and those adopted are available in published form. Write to the National Recovery Administration, Washington, D. C., for a list of published codes available. It will be found that a discussion group can purchase a variety for an aggregate sum of not over $1.00, by ordering those wanted from the Superintendent of Documents, Government Printing Office, Washington, D. C.

Take time to consider in detail the provisions of one or more codes in which members of the group have a particular interest.

Have brief reports from or interviews with people with varieties of experience, *e. g.,* an employer, a trade unionist, a farm leader, a worker, an economist, on the NRA in your city or community. Clip local newspapers for relevent data and opinion. Have several members report on recent radio addresses which they regard as significant.

Consider: What evidences of satisfaction? Of dissatisfaction? Of evasion?

What are the limitations of the NRA program?

What suggestions are current in the community for the improvement of its application to industry?

What groups consistently oppose NRA and industrial planning?

What groups have been most outspoken in favor of it?

What opinion is developing on "prices *vs.* wages" in the community?

(Possibly several sessions could be given to issues which arise from this discussion of NRA. Questions later mentioned are related to this discussion.)

Discussion 2. What help will public works provide?

See pages 69-71.

Secure information about a project of public work in your city or town or near you which was undertaken as an emergency measure. Consider how it was financed. What results are apparent?

Consider announcements of the latest reports on the national public works program: (a) national; (b) for your state. Write to the Secretary of the Interior, Washington, D. C., for the latest information on the national public works program.

It may be possible that several members of the group will wish to prepare statements representing three points of view, as follows:

a. That a large public works program is *essential* to recovery because it calls for heavy expenditures of basic materials, spreads employment and purchasing power, or for other reasons.

b. That a large public works program is *desirable* if it can be successfully worked, if political influence can be minimized, and if it can be speeded up sufficiently to have effect, or on other conditions.

c. That a large public works program is not desirable because there has been no *advance planning,* and it will take too much time to inaugurate projects involving architecture and condemnation of land, or for other reasons.

Is the public works money going for *major* social needs? (Consider roads and cruisers as compared with houses and schools.)

What are the alleged advantages and limitations of a national public works program? Draw up a balance sheet.

Discussion 3. How may debtors get relief?

See pages 90-92, 108-110.

Have one member write to the Farm Credit Administration (FCA), Washington, D. C., for its primer on how farmers may

secure loans, and another to the Home Owners' Loan Corporation (HOLC) for data in regard to procedure.

Consider local data from newspapers and personal experience in regard to the way the F C A or the H O L C have directly or indirectly assisted debtors in your community or area.

What local agencies have coöperated with the F. C. A. or H. O. L. C.?

How have local leaders expressed themselves regarding their operations?

What kinds of debtors have not been helped? Why?

What debtors apparently cannot be helped? Why?

What illustrations are available in your community of readjustment of debt or of lowering of interest charge? (Interview an officer of a building and loan association or of another credit agency for illustrations.)

Consider the statement: "Private enterprise has demonstrated that it cannot or will not house the people decently. Public or coöperative enterprises on a large scale are needed. Refinancing owners of small homes therefore does nothing fundamental."

What evidence in your community that the new federal agencies for the relief of debtors have plans that are workable? Unworkable? What evidence, if any, that the comparatively fortunate debtors are being assisted?

Discussion 4. Must we reflate or repudiate?

See pages 12-21, 120-125.

Compare recent reading, or study, or listening to radio addresses, which members of the group have done on the various forms of inflation.

Have a member of the group write to the National Grange, Columbus, Ohio, for information as to the origin of the Grange slogan: "Reflate or repudiate!"

What groups of debtors in or near your community were most seriously affected by falling prices of commodities?

What groups of debtors, if any, in or near your community have been assisted by advances in prices of commodities?

Why are members of the creditor class, or bondholders specifically, apprehensive in regard to inflation? (Secure representative opinion from persons in your community, *e. g.,* a woman living on a life insurance annuity or a man who retired and planned to live from the income on his bonds.)

What opinion is there in the group in favor of "writing down indebtedness" as over against raising of prices as a

means of helping debtors? What difficulties have been in the way of it as a practical measure?

Consider Henry A. Wallace's statement: "Inflation is no cure-all. If effective, it raises the general price level and the value of things we buy as well as of those we sell." Or Norman Thomas': "Inflation does nothing fundamental. It falls, like the rain, upon the just and the unjust."

What policies or practices seem in the opinion of the group to promise to do most to bring fair relations between creditors and debtors?

Discussion 5. Will there be effective farm relief?

See pages 77-92.

See "The Farmer's Economic Plight," Chapter *V* in *Our Economic Life.*

Invite representative farmers or officers of farm organizations to this discussion when held in an urban community; or, if possible, have members of the group interview several farmers.

How have the new farm relief laws affected farmers in your locality?

How have they affected consumers of farm products?

What, if anything, has been done recently, locally or nationally, to try to reduce the costs of distribution of food?

What conflicting interests do farmers and city dwellers have? Why?

What common interests do farmers and city dwellers have in improving purchasing power in city and country?

How can farmers and city groups work together on economic questions, *e. g.*, on taxes, educational problems?

What do members of the group think are the prospects of the Administration's attempt to "reconcile" farm and city interests?

Discussion 6. What is the consumer's part?

See pages 38-39, 53-54, 65-66.

See: "Consumers and the NRA," by William F. Ogburn, in *The Nation,* New York, for September 20, 1933.

See: "The Consumer and the Economic System," Chapter *VII* in *Our Economic Life.*

In what ways, if any, have consumers organized in your community under the NRA drive? For other purposes? What are the objectives of consumers' organizations in your community?

What are the difficulties of consumer organizations?

Have a member of the group write to Consumers' Research, Washington, New Jersey, for data on how consumers can protect their interests; to the National Consumers' League, 156 Fifth Avenue, New York, N. Y., in regard to the way consumers may express preferences for quality or for production under good conditions.

What charts or statistical data are available in your community, showing the way consumers have fared under the NRA program?

What reliable data on the effects of the farm adjustment program on consumption of farm products?

What should be done nationally to get recognition of the rights of consumers?

How many consumers in your community assert or get their rights?

Discussion 7. Should the seller of securities also beware?

See pages 93-99.

Have members of the group who are willing list typical losses through the purchase of securities.

What reliable information is available about losses in the community through the sale of questionable or worthless securities? Through what agencies were they sold?

What opinion exists in the community in regard to the value and the effect of the new federal securities law?

What state laws exist for the protection of investors? What attempts have been made to secure such laws?

What additional procedures are needed in order to make all sellers of securities beware?

Should the principle of "let the seller also beware" be applied to those who distribute other goods and services? Why? How?

Discussion 8. How should unemployment relief be handled?

See pages 102-106.

See "The Industrial Worker Today," Chapter *IV* in *Our Economic Life.*

Review the experience of the way your community has handled —or mishandled—unemployment relief.

In what ways has the community been assisted by state funds?

In what ways has it been assisted by federal funds?

What opinion exists in the group in opposition to or in favor of the principles and administration of the new federal unemployment relief law?

What evidences are there of decreases in the "relief load"? Why? Has relief been cut off too quickly?

What are the prospects for the continuation of the need of unemployment relief in your community?

What would be a fair "code" for community treatment of the unemployed? (Some unemployed groups have drawn up codes. Inquire if one has been written in or near your community.)

Discussion 9. Is nationalism a way out?

See pages 114-125, 126-129.

What changes of opinion, if any, have recently taken place in your community in regard to the need of a more nationalistic program?

Consider the effects of recent foreign policies of the United States on other countries. (Have a member read and review *The Framework of an Ordered Society,* Macmillan, 1933, 60 pp. $.75.)

How much evidence is there that your community cares what happens in other countries as a result of the foreign policies of the United States.

How much concern is there in the community in practices abroad which are in our own interest? How much in practices which assist other nations and do not assist our interest at all?

To what degree (roughly) could the nation attempt to become self-sufficient?

Discuss the thesis: "Economic nationalism simply results in the long run in lowered standards of living and increased conflicts between nations. Internationalism, or greater international coöperation is the way out!"

Discuss the thesis: "We can plan without the help of other nations. Their buying power is gone, not soon to be restored. We must be as nearly self-sufficient as we can be."

By what methods and procedures can the United States be led toward a more international attitude?

Assuming that President Roosevelt has been forced to delay international coöperation for domestic recovery, make a list of the procedures you would like to have the Administration take.

Discussion 10. How is public opinion reacting to economic planning?

See pages 71-76, 129-142.

For sources on what is meant by economic planning see pp. 116-37 of *Our Economic Life.*

Gather local newspaper clippings on the situation in the community. Compare current statements with those of December, 1932, to February, 1933.

Have brief reviews of periodical articles which attempt to assess public opinion in the state or the nation.

If possible, have a member of the group report on the labor press, another on the farm press, another on the trade journal.

To what extent is there recognition of the thesis: "Economic planning in some form has become a necessity"?

To what extent is there recognition to the idea: "To turn back now is impossible"?

What can be said about the public reception to "young robust collectivism" as compared to its former loyalty to "old rugged individualism"? (For discussion of these terms see pp. 93-124 of *Our Economic Life.*)

How may the public become better informed in regard to the values of economic planning?

Discussion 11. What are some distinctly ethical issues in economic planning?

See pages 22-23, 31-37, 72-75, 130-135.

For the consideration of this and the next question, it is suggested that every member of the group read the latest *Social Ideals of the Churches,* available from the Federal Council of Churches, 105 East 22 Street, New York, at $.05 per copy, $4.00 per hundred.

What statements have been made in the community in regard to the ethics of economic planning?

Consider the statement: "If we can work out economic planning and preserve some democracy in the process it will be an ethical triumph."

Consider the statement: "Our planning is half-way stuff. You can't really plan without going the whole way either to communism or fascism—and killing off the enemies of planning."

What ethical issues are at stake in a boycott of noncoöperators by consumers? (For example, one current application of it is the attempt to ask all consumers to patronize establishments carrying the NRA insignia.)

How much pressure on an individual or a corporation for the general welfare is approved by the group?

What methods of pressure do members of the group consider fair to a recalcitrant individual? What methods unfair?

Draw up an "ethical balance sheet" of the New Deal to date: list gains and losses.

Discussion 12. What are the religious aspects of a more collective or a better planned economic order?

See pages 133-134, 144-145.

See "Building an Economic Plan," Chapter *XII* in *Our Economic Life.*

Collect statements made by lay and clerical religious leaders of the community in regard to the New Deal.

What practices and standards are called for in a planned society as contrasted with a more competitive society?

Compare the following declarations in the latest Social Ideals of the Churches, adopted by the Federal Council of Churches, with the New Deal program.

"The churches should strive for:

"Social planning and control of the credit and monetary systems and the economic processes for the common good.

"The right of all to the opportunity for self-maintenance; a wider and fairer distribution of wealth; a living wage, as a minimum, and above this a just share for the worker in the product of industry and agriculture.

"Reduction of hours of labor as the general productivity of industry increases.

"The right of employees and employers alike to organize for collective bargaining and social action; protection of both in the exercise of this right; the obligation of both to work for the public good; encouragement of coöperatives and other organizations among farmers and other groups.

"Abolition of child labor. . . .

"Economic justice for the farmer in legislation, financing, transportation, and the price of farm products as compared with the cost of machinery and other commodities which he must buy.

"Drastic reduction of armaments. . . ."

Which of these seem fairly well along toward comprehensive application? On which have beginnings been made? Which have not been attempted?

Discuss the statement: "To be religious you must be willing to submit your destiny to social control and planning for the general

welfare rather than practicing thrift and trying to provide for your own future."

Is a planned society more likely to exalt the motives of workmanship, sportsmanship, security, *etc.*, than a competitive society?

Discuss the thesis: "The Puritan economic virtues must go. We must become experimental and pragmatic."

Discuss the statement: "The whole Roosevelt program will fail unless more people have a change of heart and become less selfish"; over against the statement:

"We always act first, and we are what we do rather than what we think. People always change their minds and their religion after they have embarked long enough on a new course of action. You cannot change human nature, but you can change the system under which people must function."

What changes, if any, are called for by the New Deal in the programs of organizations of the type of the Y. W. C. A. and the Y. M. C. A.?

What changes, if any, are called for in the programs of local churches?

Discussion 13. How may effective community planning for social and economic needs be fostered?

Have several members of the group express opinions in regard to the way the community has learned, or has not learned, better planning during the past few years.

Discuss the statement: "The fact that we sit around a table and talk about coöperation is not evidence that our behavior is coöperative. It may be evidence of the opposite kind of behavior."

Does comprehensive economic planning call for better community planning?

What lessons are there from community plans to help the NRA program?

How may the community develop critical discussion along with crusading for a plan?

What responsibility have the Y. W. C. A., the Y. M. C. A., and the churches, in promoting better community planning?

Take a fresh look at your community: How would it look if it were well and completely planned? What wastes, what sources of disease, would be removed? What resources would be more effectively used?